(1) Supreme Court, U.S.
FILED

No. -00 33 JUL 03 2000

OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Petitioner,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

J. JOSEPH BAINTON
Counsel of Record
JOHN G. MCCARTHY
BAINTON MCCARTHY & SIEGEL, LLC
Attorneys for Petitioner
International Star Class
Yacht Racing Association
130 East 35th Street
New York, New York 10016
(212) 725-7780

162 pp

QUESTIONS PRESENTED

1. Does the requirement imposed by the Second Circuit—that a trademark owner needs to prove bad faith infringement in order to obtain an accounting of the infringer's profits—comply with the language and legislative history of Section 35(a) of the Lanham Act or this Court's precedents decided under the Trademark Act of 1905?

2. Is it equitable that the infringing party is permitted to retain the millions of dollars generated by post-litigation sales of infringing garments because a temporary restraining order did not issue and, due to the vagaries of its docket and the delay caused by defendant's motion for summary judgment, the district court did not enter a permanent injunction for more than a year following commencement of this action?

3. In the absence of a finding of bad faith, is a case where a multinational company with annual sales of $227 million intentionally copies the 70-year old trademark of a not-for-profit organization and, after being sued, continues to sell off millions of dollars worth of infringing merchandise "exceptional" allowing for the recovery of reasonable attorney fees under Section 35(a)?

PARTIES TO THE PROCEEDING

The parties to this proceeding are:

1. Petitioner International Star Class Yacht Racing Association*
2. Respondent Tommy Hilfiger U.S.A., Inc.

---

* Petitioner International Star Class Yacht Racing Association is not a publicly-held company and it has no corporate parents, subsidiaries or affiliates which are publicly held.

TABLE OF CONTENTS

	PAGE
QUESTIONS PRESENTED	i
PARTIES TO THE PROCEEDING	ii
TABLE OF CONTENTS	iii
TABLE OF AUTHORITIES	v
OPINIONS BELOW	2
JURISDICTION	2
STATEMENT OF THE CASE	2
The Parties	3
Background	4
Proceedings in the District Court	5
Three Appeals to the Second Circuit	6
REASONS FOR GRANTING THE WRIT	7
I THIS COURT SHOULD RESOLVE A 30-YEAR OLD SPLIT IN THE CIRCUITS CONCERNING THE AVAILABILITY OF MONETARY RELIEF FOR TRADEMARK INFRINGEMENT	7

PAGE

II THIS COURT SHOULD REVERSE THE DECISIONS OF THE LOWER COURTS DENYING THE ASSOCIATION AN ACCOUNTING OF HILFIGER'S PROFITS.. 11

A. The Decision Of The Second Circuit Is Contrary To The Plain Language Of Section 35(a) 11

B. The Second Circuit's Decision Is Also Contrary To The Legislative History Of Section 35(a) 13

C. The Rule Applied By The Court Of Appeals Is Based On A Misinterpretation of This Court's Decision In *Champion Spark Plug Co. v. Sanders* 16

D. Principles Of Equity Dictate That Hilfiger Should Not Be Entitled To Retain The Economic Benefit 17

III THE COURTS BELOW MISINTERPRETED THE LANHAM ACT WHEN THEY FAILED TO AWARD THE ASSOCIATION ITS REASONABLE ATTORNEY FEES 21

CONCLUSION 24

TABLE OF AUTHORITIES

Cases	PAGE
Adray v. Adry-Mart, Inc. 76 F .3d 984 (9th Cir. 1995)	10
ALPO Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958 (D.C. Cir. 1990)	8
Bishop v. Equinox Int'l Corp., 154 F.3d 1220 (10th Cir. 1998)	8
Burger King Corp. v. Mason, 855 F.2d 779 (11th Cir. 1988)	8
Caminetti v. United States, 242 U.S. 470 (1917)	12
Carl Zeiss Stiftung v. VEB Carl Zeiss Jena, 433 F.2d 686 (2d Cir. 1970)	8
Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947)	16, 17
Chanel, Inc. v. Italian Activewear of Fla., Inc., 931 F.2d 1472 (11th Cir. 1991)	8
Conopco, Inc. v. Campbell Soup Co., 95 F.3d 187 (2d Cir. 1996)	21
Everest & Jennings, Inc. v. E & J Mfg. Co., 263 F.2d 254 (9th Cir. 1958)	10
Frisch's Rests., Inc. v. Elby's Big Boy, 849 F.2d 1012 (6th Cir. 1988)	8
George Basch Co. v. Blue Coral, Inc., 968 F.2d 1532 (2d Cir. 1992)	8

PAGE

Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A., 530 U.S. ___, 120 S. Ct. 1942 (2000) 11

Immigration & Naturalization Serv. v. Cardoza-Fonseca, 480 U.S. 421 (1987) 14

Louis Vuitton S.A. v. Lee, 875 F.2d 584 (7th Cir. 1989) 8, 9

Nalpac, Ltd. v. Corning Glass Works, 784 F.2d 752 (6th Cir. 1986) 8

Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521 (D.C. Cir. 1985) 22

Park 'N Fly, Inc. v. Dollar Park and Fly, Inc., 469 U.S. 189 (1985) 11

Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526 (5th Cir. 1998) 9, 10

Polo Fashions, Inc. v. Dick Bruhn, Inc., 793 F.2d 1133 (9th Cir. 1986) 19, 20

Rolex Watch USA, Inc. v. Meece, 158 F.3d 816 (5th Cir. 1998) 10

Roulo v. Russ Berrie & Co., 886 F.2d 931 (7th Cir. 1989) 8, 9

Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947 (7th Cir. 1992) 9

SecuraComm Consulting Inc. v. Securacom Inc., 166 F.3d 182 (3d Cir. 1999) 8

PAGE

Statutes

15 U.S.C. § 1111 ..... 11n

15 U.S.C. § 1114 ..... 10n, 11n, 13

15 U.S.C. § 1117(a) ..... *passim*

15 U.S.C. § 1125(a) 6

28 U.S.C. § 1254(1) 2

FED. R. CIV. P. 65(c) 18

Legislative Documents

H.R. 9041, 75th Cong. (1938) 14

S. 2679, 68th Cong. (1924) 14

S. REP. NO. 93-1400 (1973), *reprinted in* 1974 U.S.C.C.A.N. 7132 21

Other Authorities

M.G. Del Monte, Recent Development, Texas Pig Stands, Inc. v. Hard Rock Cafe International: *Willful Infringement Won't Always Bring Home the Bacon*, 67 TULANE L. REV. 569 (1992) 21

Jerome Gilson, TRADEMARK PROTECTION AND PRACTICE (1999) 14

Eugene W. Luciani, Note, *Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L. 69 (1998) 12n, 15

PAGE

Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271 (1997) ..... *passim*

IN THE

Supreme Court of the United States

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Petitioner,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

International Star Class Yacht Racing Association (the "Association" or "ISCYRA") respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Second Circuit, entered in this case on January 12, 2000, which affirmed the judgment of the United States District Court for the Southern District of New York granting a permanent injunction, but denying an accounting of profits and an award of reasonable attorney fees for trademark infringement.

OPINIONS BELOW

The most recent opinion of the court of appeals is unreported. *See* 205 F.3d 1323 (2d Cir. 2000) (table of unpublished dispositions). Two earlier opinions of the court of appeals in this action are reported at 80 F.3d 749 (2d Cir. 1996) and 146 F.3d 66 (2d Cir. 1998). The opinion of the district court granting a permanent injunction and denying monetary relief is reported at 1995 WL 241875 (S.D.N.Y. Apr. 26, 1995). An earlier opinion of the district court denying respondent's motion for summary judgment is reported at 33 U.S.P.Q.2d 1610 (S.D.N.Y. 1994). The opinions of the district court following the first remand are reported at 959 F. Supp. 2d 623 (S.D.N.Y. 1997) and 1997 WL 297031 (S.D.N.Y. Jun. 4, 1997). The opinion of the district court following the second remand is reported at 1999 WL 108739 (S.D.N.Y. Mar. 3, 1999). These opinions are reprinted in the appendix.

JURISDICTION

The judgment of the court of appeals affirming the judgment of the district court was entered on January 12, 2000. (1a-4a.)[1] A timely petition for rehearing *en banc* was denied on April 3, 2000. (5a-6a.) The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT OF THE CASE

Respondent Tommy Hilfiger U.S.A., Inc. ("Hilfiger"), infringed the Association's 70-year old common law trademark "STAR CLASS" by selling nautical clothing with the mark "Star ★ Class." (74a; *see* 68a (depicting Hilfiger's use of "Star ★ Class" mark).) Hilfiger marketed the clothes as "containing authentic details taken from the sport of

[1] References to the appendix are in the form "__a."

competitive sailing." (74a.) The district court issued a permanent injunction against Hilfiger's use of "Star Class" but denied the Association an accounting of Hilfiger's profits and an award of its attorney fees pursuant to Section 35(a) of the Lanham Act. (94a-96a.) The district court denied both of these requests because it found that the Association had failed to prove that Hilfiger had acted in bad faith. (95a-96a.) The court of appeals affirmed that decision based on the *Restatement (Third) of Unfair Competition* and that court's precedents. (26a-27a.)

The Parties

ISCYRA is a non-profit corporation founded in 1922 to govern and promote the sport of Star Class yacht racing. (23a.) Stars are sophisticated one-design racing craft sailed in high-profile regattas and championship series around the world, including the Olympics. (23a.) ISCYRA owns the rights to the design of these yachts and closely monitors the construction, certification and registration of each boat in the class. (23a; 72a.) The main sail of a Star bears the solid red five-pointed star which serves as ISCYRA's insignia or an honor award of a green, blue, silver or gold star signifying the winner of an ISCYRA championship regatta. (23a.) The red star is also used, along with the "STAR CLASS" trademark, on the yachting hats, clothing, flags, decals and pins sold by ISCYRA. (23a.) ISCYRA permits yacht clubs hosting its sanctioned regattas to use the insignia and its "STAR CLASS" trademark on promotional items, and has collected royalties for their use in jewelry and posters. (23a.)

Hilfiger is a successful designer and distributor of high quality men's clothing. (24a.) Its sales exceeded $227 Million in the year ending March 31, 1994. (24a; 74a.) The record below revealed that Hilfiger's founder, Tommy Hilfiger, is passionate about sailing; is the company's prin-

cipal designer; and leads and directs all aspects of the design process.

Background

One of Hilfiger's designers admitted that he copied "Star Class" from a coffee table book about racing. (10a, n. 1; 74a.) The district court thus found that Hilfiger intentionally copied the Association's "STAR CLASS" trademark. (28a.)

In intentionally copying "STAR CLASS", Hilfiger ignored its counsel's warnings about using this mark without further inquiry:

> At this point, we would not necessarily rule out your use and registration of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search.

(10a (underlined in original).) This advice was given to Hilfiger after the attorneys made a "knock out" search on Westlaw for federally registered trademarks only. (27a.) The court of appeals analyzed this conduct as follows:

> In light of Hilfiger's minimal efforts to ascertain whether "STAR CLASS" was, in fact, a trademark, we agree with ISCYRA that the district court clearly erred in finding Hilfiger guilty only of simple copying and not of intent to copy a mark. Given Hilfiger's awareness that it was copying "authentic details . . . from the sport of competitive sailing," it should have shown greater concern for the possibility that it was infringing on another's mark. Hilfiger's choice not to perform a full search under these circumstances reminds us of two of the famous trio of monkeys who, by covering their eyes and ears, neither saw nor heard any evil. Such willful ignorance should not provide a

means by which Hilfiger can evade its obligations under trademark law.

(28a.)

In March 1994, Hilfiger, through its retailers, began selling over $3 million worth of nautical clothing using the "Star ★ Class" mark without the Association's authorization. (24a.) Hilfiger employed a yachting motif, including the use of a detail in the shape of a burgee (a yachting flag usually denoting a yacht club) directly above the "Star ★ Class" mark. (74a; *see* 68a (depicting burgee detail and mark).) Hilfiger also marketed the garments as containing "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails." (24a.)

The day **after** it was sued by the ISCYRA and a month **after** the cease and desist letter, Hilfiger finally conducted the "full trademark search." (29a; 10a.) That search showed ISCYRA and its connection to yachts and yacht racing. (29a; 10a.) Despite the results of this search, Hilfiger "bet" on the outcome of this litigation and proceeded to sell off infringing garments after the commencement of this litigation. (29a.)

Proceedings in the District Court

When Hilfiger refused a demand to cease and desist selling the infringing merchandise, the Association commenced this action on April 13, 1994, for violation of Section 43(a) of the Lanham Act. (98a.) It simultaneously moved for a preliminary injunction and consolidation of the trial with the preliminary injunction hearing. (98a.) The district court established a period for accelerated discovery and set trial for June 6, 1994, which it later adjourned so Hilfiger could make a summary judgment motion. (98a.) On November 30, 1994, the district court rendered a decision denying Hilfiger's motion. (97a-121a.)

The bench trial took place on January 9-10, 1995. (71a.) No one from Hilfiger, including the people responsible for designing the infringing garments, took the witness stand during the trial. (24a; 74a.) On April 25, 1995, the district court found that Hilfiger had violated Section 43(a), 15 U.S.C. § 1125(a). (94a.) The court granted ISCYRA injunctive relief under Section 34, 15 U.S.C. § 1116, but denied ISCYRA any monetary recovery under Section 35(a), 15 U.S.C. § 1117(a), including its reasonable attorney fees. (94a-96a.)

Three Appeals to the Second Circuit

In *ISCYRA I*, the Second Circuit held that the district court made two clearly erroneous findings and that the analysis of Hilfiger's bad faith was incomplete. (25a.) It vacated the denial of an accounting of profits and attorney fees and remanded the case for reconsideration of the bad faith issue. (30a.) The court of appeals also held that "[i]n order to recover an accounting of an infringer's profits, a plaintiff must prove that the infringer acted in bad faith." (26a-27a.) In reaching this decision the court relied, not on the Lanham Act, but on the *Restatement (Third) of Unfair Competition* and Second Circuit precedents. (27a.)

On the second appeal, the court of appeals vacated the finding that Hilfiger had not acted in bad faith because the district court relied on facts from the trial of another action. (16a.)

The district court then rendered a decision again finding that Hilfiger did not act in bad faith when it adopted "STAR ★ CLASS" or when it sold off the remaining $1.1 million worth of infringing garments in its inventory after the complaint was filed. (32a-40a.)

The Association again appealed. On January 12, 2000, the court of appeals issued its Summary Order. (1a-4a.) The panel declined to reconsider the Second Circuit's

precedents requiring a showing of bad faith to recover monetary damages. (2a-3a.) It also affirmed the finding on bad faith noting "[a]lthough there is some evidence that points toward the existence of bad faith, we cannot say, after review of the record, that we are 'left with [the] definite and firm conviction that a mistake has been committed.' " (3a-4a.) The Association's timely petition for rehearing *en banc* was denied. (5a-6a.)

REASONS FOR GRANTING THE WRIT

I

THIS COURT SHOULD RESOLVE A 30-YEAR OLD SPLIT IN THE CIRCUITS CONCERNING THE AVAILABILITY OF MONETARY RELIEF FOR TRADEMARK INFRINGEMENT.

Currently, a trademark owner in some parts of this country is presumptively entitled to recover monetary relief—actual damages or an accounting of profits—for infringement, while in other parts of the country that trademark owner is required to prove that the infringer acted willfully or in bad faith. The circuits that have inserted a bad faith requirement into the Lanham Act have done so in contravention of the plain language of the statute, its legislative history and decisions of this Court under the predecessor trademark act. This split in the circuits has lasted for more than 30 years and affects the millions of dollars generated each year by the sale of infringing merchandise. *See* Keith M. Stolte, *Remedying Judicial Limitations on Trademark Remedies: An Accounting of Profits Should Not Require a Finding of Bad Faith*, 87 TRADEMARK REP. 271, 277-78 & 299 n. 142 (1997) [hereinafter *Stolte*].

The Second Circuit is the main proponent of one side of the split. *See Stolte, supra*, at 277. It is joined by the Third,

Sixth, Tenth and D.C. Circuits. *See SecuraComm Consulting Inc. v. Securacom Inc.*,166 F.3d 182, 190 (3d Cir. 1999) ("plaintiff must prove that an infringer acted willfully before the infringer's profits are recoverable"); *Frisch's Rests., Inc. v. Elby's Big Boy*, 849 F.2d 1012, 1015 (6th Cir. 1988) ("For a court to order an accounting . . . , bad faith must be shown."); *Nalpac, Ltd. v. Corning Glass Works*, 784 F.2d 752, 755 (6th Cir. 1986); *Bishop v. Equinox Int'l Corp.*, 154 F.3d 1220, 1223 (10th Cir. 1998) ("we are mindful that an award of profits requires a showing that defendant's actions were willful or in bad faith"); *ALPO Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 968 (D.C. Cir. 1990) ("award based on a defendant's profits requires proof that the defendant acted willfully or in bad faith"). Since 1970, the Second Circuit has read a bad faith element into Section 35(a) of the Lanham Act. *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 706-07 (2d Cir. 1970); *see also George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540 (2d Cir. 1992) (to recover profits "plaintiff must prove that an infringer acted with willful deception").

The Seventh and Eleventh Circuits decline to follow the narrow reading of the "equitable principles" language of Section 35(a) of the Lanham Act. *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588-89 (7th Cir. 1989); *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 941 (7th Cir. 1989) ("Other than general equitable considerations, there is no express requirement that the parties be in direct competition or that the infringer wilfully infringe the trade dress to justify an award of profits."); *Chanel, Inc. v. Italian Activewear of Fla., Inc.*, 931 F.2d 1472, 1476 (11th Cir. 1991) ("showing of intent or bad faith is unnecessary . . . to seek remedies pursuant to § 1117(a)"); *Burger King Corp. v. Mason*, 855 F.2d 779, 781 (11th Cir. 1988) ("award of profits based on either unjust enrichment or deterrence [is not] dependent upon a higher showing of culpability on the part of defen-

dant, who is purposely using the trademark"). These courts hold that an accounting of profits is warranted where the equities would require: (1) just compensation to the plaintiff, (2) a deterrence to the defendant from future infringing activities, and/or (3) avoidance of unfair enrichment to the defendant. *See Stolte, supra*, at 284; *see also Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947, 961 (7th Cir. 1992); *Roulo*, 886 F.2d at 941. Judge Richard A. Posner articulated the rationale supporting this line of cases best when he noted:

> the principles of equity referred to in section 1117(a) do not in our view justify withholding all monetary relief from the victim of a trademark infringement merely because the infringement was innocent. As between the "innocent" infringer who seeks to get off scot-free, and the innocent infringed who has [not] engaged in inequitable conduct . . . , the stronger equity is with the innocent infringed.

Louis Vuitton, 875 F.2d at 588-89. The Seventh Circuit has also held that "[t]he trial court's primary function is to make violations of the Lanham Act unprofitable to the infringing party." *Roulo*, 886 F.2d at 941.

The state of the law in the Fifth and Ninth Circuits can best be described as internally inconsistent. In *Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526 (5th Cir. 1998), the Fifth Circuit held:

> **While this court has not required a particular factor to be present**, relevant factors to the court's determination of whether an award of profits is appropriate include, but are not limited to, (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in mak-

> ing the misconduct unprofitable, and (6) whether it is a case of palming off.

Id. at 554 (emphasis added). The *Pebble Beach* case can be fairly read as supporting the proposition that an accounting can be awarded in the absence of bad faith infringement. In another 1998 decision, however, the Fifth Circuit held that "under § 1117(a), an award of profits **requires proof of willful or deliberate infringement**." *Rolex Watch USA, Inc. v. Meece*, 158 F.3d 816, 826 (5th Cir. 1998) (emphasis added). These two cases—decided five weeks apart—cannot be reconciled.

While the original bad faith case was a Ninth Circuit decision, *Everest & Jennings, Inc. v. E & J Mfg. Co.*, 263 F.2d 254, 262 (9th Cir. 1958),[2] current case law from that court applies the bad faith requirement only some of the time. *Adray v. Adry-Mart, Inc.* 76 F.3d 984, 988 (9th Cir. 1995). In *Adray*, the court of appeals held that willful infringement is not always a prerequisite to an award of profits, "as when plaintiff seeks the defendant's profits as a measure of his own damage." *Id.* (*citing Lindy Pen Co. v. Bic Pen Corp.*, 982 F.2d 1400, 1407-09 (9th Cir. 1993)). Thus, in that circuit, to obtain monetary relief a trademark owner must prove bad faith some times, but not others.

It is time for this Court to resolve the circuit split, eliminate the confusion and return the state of trademark law to that contemplated by Congress in 1946 when it passed the Lanham Act.

---

[2] It should be noted that the holding in this case was based on a misapplication of the printers and publishers exception of Section 32, 15 U.S.C. § 1114. *See Everest & Jennings*, 263 F.2d at 262-63; *see also Stolte*, *supra*, at 287-89 (discussing this mistake by the Ninth Circuit).

II

THIS COURT SHOULD REVERSE THE DECISIONS OF THE LOWER COURTS DENYING THE ASSOCIATION AN ACCOUNTING OF HILFIGER'S PROFITS.

A. The Decision Of The Second Circuit Is Contrary To The Plain Language Of Section 35(a).

Section 35(a) of the Lanham Act provides:

> When . . . a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 [29] and 1114 [32] of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. . . .

15 U.S.C. § 1117(a).[3] As this Court can readily observe, the plain language of Section 35(a) states that the plaintiff "shall be entitled" to recover defendant's profits "subject to the principles of equity." Nowhere in this section did Congress require that a trademark owner prove bad faith infringement. (*See* 125a (containing complete text of Section 35(a)).) As this Court has held many times, when interpreting statutes courts are obligated to follow the plain language of the statute. *Hartford Underwriters Ins. Co. v. Union Planters Bank, N.A.*, 530 U.S. ___, 120 S. Ct. 1942, 1947 (2000); *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985) (noting in Lanham Act case that "[s]tatutory construction must begin with the language

---

[3] Neither section 29 nor 32 is applicable in this case. Section 29 relates to the use of ® for registered marks and section 32 relates to mere printers or publishers of infringing material. *See* 15 U.S.C. §§ 1111 & 1114 (reproduced in the appendix, 122a; 122a-125a).

employed by Congress and the assumption that the ordinary meaning of that language accurately expresses the legislative purpose"); *Caminetti v. United States*, 242 U.S. 470, 485 (1917) ("meaning of a statute must, in the first instance, be sought in the language in which the act is framed, and if that is plain . . . . the sole function of the courts is to enforce it according to its terms"). The Second Circuit did not follow the plain language of Section 35(a) in this case.[4]

Other language in Section 35(a) also confirms that Congress did not intend to require proof of willful infringement or bad faith for an award of monetary relief. Congress included a provision that allows the court to adjust an award of profits upward or downward in order to achieve a just result. 15 U.S.C. § 1117(a) ("If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."). Finally, Congress concluded Section 35(a) with the statement that "[s]uch sum in either of the above circumstances shall constitute compensation and not a penalty." *Id.* This language of Section 35(a) does not support the proposition that willful or bad faith infringement is a prerequisite to recovery of such sums. Congress intended monetary recoveries awarded under Section 35(a) to compensate trademark owners when someone unlawfully uses their property, not to punish bad faith infringers. The last sentence of Section

---

[4] One commentator, after conducting an economic analysis of the issue, concluded that "[t]he bad faith requirement does not seem to be a necessity to strike a balance between deterrence and overdeterrence; rather, it seems as if it is a judicial creation, without much guidance from the statute, based on a misguided sense of fairness." Eugene W. Luciani, Note, *Does the Bad Faith Requirement in Accounting of Profits Damages Make Economic Sense?*, 6 J. INTELL. PROP. L. 69, 117 (1998) [hereinafter *Luciani*].

35(a) would have been unnecessary if Congress intended the monetary relief to be available only in cases where the infringement was in bad faith or willful.

Moreover, Congress obviously knew how to include a scienter requirement in the trademark laws when it decided such a requirement was appropriate. *See* 15 U.S.C. § 1114 (Lanham Act, Section 32) (reproduced in the appendix, 122a-124a); *see also Stolte*, *supra*, at 293-94. Section 32 contains a safe harbor provision for innocent printers and publishers. A trademark owner can recover profits or damages from a printer or publisher only if "the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive." *Id.* § 1114(1). The fact that Section 32 expressly includes this requirement in cases against mere printers and publishers further demonstrates that Congress did not intend that trademark owners prove willful infringement in all cases in order to obtain monetary relief under Section 35(a). *See Stolte*, *supra*, at 293-94.

The Second Circuit's decision in this case, and in a line of cases dating to 1970, ignores the plain language of Section 35(a) and adds an element that Congress did not intend. It is the role of Congress, not the Second Circuit, to amend the language of Section 35(a). This Court should grant this petition in order to correct the court of appeals' incorrect interpretation of the Lanham Act.

B. The Second Circuit's Decision Is Also Contrary To The Legislative History Of Section 35(a).

Not only does the decision of the court of appeals ignore the plain language of Section 35(a), it is also contrary to that section's legislative history. Congress considered and rejected making proof of bad faith or willful infringement a prerequisite to a recovery of damages or profits for trademark infringement.

Although the Lanham Act was enacted in 1946, its legislative origins date to 1924 when Senator Richard Pretlow Ernst proposed a bill to replace the Trademark Act of 1905. *See* 7 Jerome Gilson, TRADEMARK PROTECTION AND PRACTICE pt. II, at II-1 (1999) (containing chronology of Lanham Act's legislative history). That bill provided:

> Any person who shall, in commerce, infringe any registered trade-mark, shall be liable—
>
> * * *
>
> (c) To pay to the owner all profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost or deduction claimed; **but there shall be no recovery of profits from any defendant whose adoption and use of an infringing trademark was in good faith and without knowledge of the plaintiff's right thereto, except such profits as accrued thereon after such defendant had actual notice or knowledge thereof.**

S. 2679, 68th Cong. § 18, at 21 (1924) (emphasis added). Six subsequent trademark bills, none of which were enacted, included similar language limiting an award of profits to cases of bad faith infringement. *See Stolte*, *supra*, at 295, n. 127 (listing six subsequent bills). The highlighted language was dropped in subsequent bills, *see* H.R. 9041, 75th Cong. § 34(a), at 15 (1938), and from the law that was enacted in 1946. *See* 15 U.S.C. § 1117(a). As this Court has held, "[f]ew principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded in favor of other language." *Immigration & Naturalization Serv. v. Cardoza-Fonseca*, 480 U.S. 421, 442-43 (1987). The fact that early drafts of what became the Lanham Act contained a willfulness element

and the statute as enacted did not is compelling proof that the Second Circuit's decision is contrary to Congressional intent.

It has been observed that

> trademark legislation and legislative history reveals that Congress sought to advance significant policies. Through trademark legislation, Congress attempted to protect not only the owner's property, but also the public reliance on the mark. In order to protect the mark, Congress set up a system which required: (1) a set of incentives for owners to police their marks; (2) compensation for the wronged owners; and (3) deterrence of future infringement without deterring useful and "good-faith" adoption.

Luciani, *supra*, at 73. The decision of the courts below accomplished none of these objectives. The Association, as owner of the "STAR CLASS" trademark, did not receive any compensation for the use of its property, instead it was required to expend substantial resources to protect its property. This result creates a disincentive for trademark owners to spend the effort and resources necessary to police their marks. Moreover, it has no deterrent effect for Hilfiger or other infringers because Hilfiger got off "scot-free."

The decision of the court of appeals to deny the Association an accounting of Hilfiger's profits is contrary to the intent of Congress as evidenced by the Lanham Act's legislative history. This Court should grant the writ and follow Congressional intent by awarding Hilfiger's profits to the Association.

C. The Rule Applied By The Court Of Appeals Is Based On A Misinterpretation Of This Court's Decision In *Champion Spark Plug Co. v. Sanders*.

Many of the decisions holding that proof of bad faith or willful infringement is necessary to obtain monetary relief under Section 35(a), especially the earlier ones, rely on this Court's decision in *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947). *See Stolte, supra*, at 282. The courts that rendered those decisions misread this Court's opinion.

Champion Spark Plug involved the use of the "Champion" trademark in connection with spark plugs actually manufactured by Champion that the defendant had reconditioned and resold as used spark plugs. 331 U.S. at 126. The sole question presented to this Court was the adequacy of the remedy fashioned by the court of appeals. *Id.* at 128. This Court noted that "[u]nder the Trade Mark Act of 1905, as under its predecessors, an accounting has been denied where an injunction will satisfy the equities of the case."[5] *Id.* at 131. This Court then noted that

> there has been no showing of fraud or palming off. For several years respondents apparently endeavored to comply with a cease and desist order of the Federal Trade Commission requiring them to place on the plugs and on the cartons a label revealing that the plugs were used or second-hand. Moreover, as stated by the Circuit Court of Appeals, the likelihood of damage to petitioner or profit to respondents due to any misrepresentation seems slight.

---

[5] The 1905 Act provided, in pertinent part, "upon a decree being rendered in any such case for wrongful use of a trade-mark the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction." *Champion Spark Plug*, 331 U.S. at 131, n. 7 (quoting section 19, 15 U.S.C. § 99.)

Id. at 131-32. This Court then concluded that "[i]n view of these various circumstances it seems to us that the injunction will satisfy the equities of the case." *Id.* at 132.

The Second Circuit and the other courts of appeals that follow its lead have woodenly applied a strict requirement of bad faith. This Court's *Champion Spark Plug* decision does not support such a rigid approach. Rather, this Court held that the "equities of the case" dictate whether a monetary award is justified. The willfulness or bad faith of the infringer is but one factor in determining what the "equities" require in any given case.

This Court should grant the writ in order to clarify its decision in *Champion Spark Plug Co. v. Sanders.*

D. Principles Of Equity Dictate That Hilfiger Should Not Be Entitled To Retain The Economic Benefit Of Its Infringing Conduct.

The only limitation on an accounting of profits actually found in Section 35(a) is "principles of equity." In this case, equity was not served. Hilfiger was allowed to keep all of the money it received through its intentional copying of a 70-year old famous yachting trademark in an effort to sell clothes bearing "authentic details taken from the sport of competitive sailing." A permanent injunction was issued after all of the infringing merchandise was sold off. Moreover, because a temporary restraining order was not, and could not be, obtained by the trademark owner and it took the district court more than a year to issue a permanent injunction Hilfiger sold more than $1 million worth of infringing goods from its inventory after this litigation was commenced.

A Hilfiger designer admitted that while designing the infringing line of garments he examined books and other materials on competitive sailing which referred to the Star Class and Star yachts. (10a, n. 1; 74a.) Based on this and

other evidence, the district court found that Hilfiger intentionally copied that "STAR CLASS" trademark for its Spring 1994 collection. (24a-25a; 94a.) It marketed the garments as "classic nautical sportswear" with "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails." (10a; 74a.) It conducted an inadequate screening search and ignored its attorney's advice to conduct a full trademark search before using the mark. (10a.) Hilfiger proceeded to manufacture and sell over $3 million worth of infringing "Star ★ Class" garments. (24a.) Despite a cease and desist letter, the commencement of this action and a Thomson & Thomson report, all of which placed it on notice of the Association's trademark rights in "STAR CLASS", it continued to sell off the infringing merchandise. (24a.) The "principles of equity" were not served in this case by the granting of a permanent injunction after Hilfiger had sold off all of the infringing merchandise and pocketed $3.7 million.

Moreover, equity was not served because the economic result varied by virtue of the fact that a temporary restraining order did not issue and the ISCYRA's preliminary injunction motion was pending for a year before the district court decided it.

The Association did not seek a temporary restraining order for an obvious reason, it could not post the multi-million dollar injunction bond the district court was obliged to require. FED. R. CIV. P. 65(c) ("No restraining order or preliminary injunction shall issue except upon the giving of security by the applicant . . ."). Instead, the Association moved for a preliminary injunction and to consolidate the hearing on that motion with the full trial on the merits. (98a.)

The record is replete with references to the meager assets of the not-for-profit Association as compared to the successful, publicly-held Hilfiger. To restrain temporarily the

sale of over $3 million worth of in season, current garments, Hilfiger would obviously have demanded and been entitled to receive a bond in an amount far beyond the ability of the Association to post. This economic inequality gave Hilfiger the unobstructed opportunity to make a "bet" on the final outcome of this case. (29a (noting that Hilfiger's counsel admitted this "bet" during oral argument).) Hilfiger lost the bet when the district court found the ISCYRA's trademark to be both valid and infringed by Hilfiger's garments. (*See* 29a.)

This petition asks this Court to address what consequences, if any, befall Hilfiger for making and losing this bet? The ISCYRA contends that the consequence of Hilfiger losing the bet should be to place Hilfiger in **exactly the position** it would be in today if a temporary restraining order had been granted in April of 1994 or a permanent injunction in June of 1994—no better a position and no worse a position.

If a temporary restraining order had issued in April of 1994, by reason of the district court's permanent injunction and the fact that the infringing trademark cannot be removed from the garments without rendering them unmerchantable, Hilfiger would have on hand today and be required to destroy millions of dollars worth of infringing garments. By reason of its ability to make its bet, Hilfiger has on hand instead of worthless infringing goods, millions of dollars of cash representing the proceeds of its and its customers' sale of the infringing goods—cash that the district court's judgment permits it to keep.

By permitting Hilfiger to retain these proceeds, the decisions below strongly encourage future infringers and their counsel to seek as much delay as possible in order to "sell off" inventories of infringing goods so as to avoid the harsh economic consequence of having to destroy such goods. This is what happened in *Polo Fashions, Inc. v.*

Dick Bruhn, Inc., 793 F.2d 1132 (9th Cir. 1986). In that case, after the litigation was commenced the defendant sold off the infringing goods at cost, thus having no "profits" on the sales. *Id.* at 1134-35. The court of appeals held:

> The district court's remedy in this case did not remove all of Bruhn's economic incentive to buy and sell counterfeit Polo shirts. Bruhn was charged exactly the same penalty it would have been charged if it had behaved legally, that is, if it had destroyed the counterfeits. See Lanham Act § 36, 15 U.S.C. § 1118. Despite Bruhn's having acted unlawfully in selling the counterfeits, the district court's remedy left Bruhn $8,820 richer than it would have been had it acted lawfully. The mythic future infringer, well-versed in the precedents of this circuit and not unwilling to violate federal law, would ship the shirts just as Bruhn did. To remove this incentive, we hold that the recovery based on profits is inadequate. Bruhn must pay Polo the receipts from the [post litigation] sales of those shirts, $8,820; any lesser remedy would not remove the incentive for Bruhn to ship the shirts after discovering that they were counterfeit.

Id. at 1135.

The result in this case will not deter Hilfiger or the mythic future infringer from engaging in the same conduct because, in substance, Hilfiger won its "bet." This Court should grant the writ and remove the economic incentive from trademark infringement.

III

THE COURTS BELOW MISINTERPRETED THE LANHAM ACT WHEN THEY FAILED TO AWARD THE ASSOCIATION ITS REASONABLE ATTORNEY FEES.

Section 35(a) of the Lanham Act also provides that the "court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a). In this case, the district court and court of appeals denied ISCYRA's request for an award of its reasonable attorney fees. (96a.) Both courts relied on precedent of the Second Circuit that a finding of bad faith is necessary for an attorney fees award under Section 35(a). *See Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 194 (2d Cir. 1996). Once again, the plain language of Section 35(a) imposes no such requirement. *See* 15 U.S.C. § 1117(a).

Hilfiger, a multi-million dollar, publicly-held company, deliberately copied the Association's 70-year old mark and exercised a level of conscious disregard for the rights of the not-for-profit Association which clearly justifies an award of attorneys' fees. Fundamental public policy concerns argue strongly on the facts of this case that the Association should be awarded its reasonable attorney fees, both as an incentive for trademark owners to police their marks and as a detriment to would-be infringers.

The legislative history of the Lanham Act indicates that attorney fees are awarded in order to encourage trademark owners to enforce trademark rights. S. REP. NO. 93-1400, at 5 (1973), *reprinted in* 1974 U.S.C.C.A.N. 7132, 7136; M.G. Del Monte, Recent Development, Texas Pig Stands, Inc. v. Hard Rock Cafe International: *Willful Infringement Won't Always Bring Home the Bacon*, 67 TULANE L. REV. 569, 579 (1992). The question of what constitutes an "exceptional" case under Section 35(a) was discussed in

Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521 (D.C. Cir. 1985), a trademark infringement case where plaintiff was held to have unreasonably filed its action in the wrong district. After Noxell's action was dismissed because of its "unjustifiable" choice of venue, defendant Firehouse filed a request for attorneys fees. *Id.* at 523. The court, finding the case "exceptional", awarded attorneys' fees. *Id.* at 528. In reaching its decision, the court reasoned that plaintiff's action imposed an unreasonable hardship on defendant. *Id.* at 525-26. Plaintiff's corporation was a cosmetics conglomerate, while defendant was a full-time San Francisco firefighter. *Id.* at 523. The court of appeals held:

> we think it fair to assume that Congress did not intend rigidly to limit recovery of fees by a defendant to the rare case in which a court finds that the plaintiff "acted in bad faith, vexatiously, wantonly, or for oppressive reasons"; that exception to the "American rule," the Supreme Court has clarified, is always available unless Congress expressly forbids its operation. Something less than "bad faith," we believe, suffices to mark a case as "exceptional."

Id. at 526 (citations omitted).

Here, as in *Noxell*, a large corporate entity has treated with callous disregard the trademark rights, established over decades of investment of volunteer effort, of the incomparably smaller International Star Class Yacht Racing Association. Faced with the dilemma of losing control over its famous marks through inaction or of waging a battle in the courts against a Goliath infringer, the Association refused to relinquish its rights. This approach is the one Congress sought to encourage when it added the attorney fees provision to Section 35(a). On facts such as these and in light of conduct such as Hilfiger's, public policy and legislative intent combine to require an award of reasonable attorney fees.

Hilfiger's deliberate copying of "authentic details taken from the sport of competitive sailing," is sufficient to justify an award of attorney's fees. This conclusion is bolstered by the court's finding that the Association's marks are famous marks (23a), and by Hilfiger's woefully inadequate "screening search" which totally ignored the Lanham Act rights of owners of common law and state registered marks and trade names. (27a.) The district court found that the alleged copying of the "Star ★ Class" mark was an intentional act. (86a.) As a result of this deliberate use of the famous "STAR CLASS" mark, the Association filed suit in order to protect its rights in the mark. Consequently, the Association is entitled to recover its enforcement costs through an equitable award of reasonable attorney fees.

This Court should also grant the writ to clarify the law concerning "exceptional cases" under Section 35(a) of the Lanham Act.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Dated: New York, New York
June 30, 2000

Respectfully submitted,

J. JOSEPH BAINTON
Counsel of Record
JOHN G. MCCARTHY
BAINTON MCCARTHY & SIEGEL, LLC
Attorneys for Petitioner
International Star Class
Yacht Racing Association
130 East 35th Street
New York, New York 10016
(212) 725-7780

TABLE OF CONTENTS

PAGE

Summary Order of the United States Court of Appeals for the Second Circuit, dated January 12, 2000 ..... 1a

Order of the United States Court of Appeals for the Second Circuit, dated April 3, 2000 ..... 5a

Opinion of the United States Court of Appeals for the Second Circuit, dated May 29, 1998 (146 F.3d 66) 7a

Opinion of the United States Court of Appeals for the Second Circuit, dated April 4, 1996 (80 F.3d 749) 21a

Opinion and Order of the United States District Court for the Southern District of New York, dated March 2, 1999 ..... 32a

Opinion and Order of the United States District Court for the Southern District of New York, dated June 3, 1997 ..... 41a

Opinion and Order of the United States District Court for the Southern District of New York, dated February 28, 1997 (959 F. Supp. 623) 53a

Opinion and Order of the United States District Court for the Southern District of New York, dated April 25, 1995 ..... 69a

PAGE

Opinion and Order of the United States District Court for the Southern District of New York, dated November 30, 1994 (33 U.S.P.Q.2d 1610). 97a

Statutory Provisions

Lanham Act, § 29, 15 U.S.C. § 1111 ..... 122a
Lanham Act, § 32, 15 U.S.C. § 1114 ..... 122a
Lanham Act, § 35(a), 15 U.S.C. § 1117(a) 125a
Lanham Act, § 43(a), 15 U.S.C. § 1125(a) 126a

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

No. 99-7329
Filed January 12, 2000

At a stated term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 12th day of January, two thousand.

PRESENT: HONORABLE RALPH K. WINTER,
Chief Judge,
HONORABLE JON O. NEWMAN,
HONORABLE JOHN M. WALKER, JR.,
Circuit Judges.

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff-Appellant,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Defendant-Appellee.

APPEARING FOR APPELLANT: J. Joseph Bainton, Bainton McCarthy & Siegel, New York, N.Y.

APPEARING FOR APPELLEE: Louis S. Ederer, Gursky & Ederer, New York, N.Y.

SUMMARY ORDER

Appeal from the United States District Court for the Southern District of New York (Robert P. Patterson, Jr., Judge).

ON CONSIDERATION WHEREOF, IT IS HEREBY ORDERED, ADJUDGED AND DECREED that the judgment of the District Court is AFFIRMED.

On two prior appeals in this trademark infringement litigation, we remanded for reconsideration of whether Defendant-Appellee's use of the Plaintiff-Appellant's "Star Class" mark was in bad faith, thereby entitling the Plaintiff-Appellant to an accounting of profits. *See International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 146 F.3d 66, 73 (2d Cir. 1998) (*"ISCYRA II"*); *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 80 F.3d 749, 754-55 (2d Cir. 1996) (*"ISCYRA I"*). Upon the most recent remand, the District Court found, without the use of judicial notice that we had ruled erroneous, *see ISCYRA II*, 146 F.3d at 70-71, that bad faith had not been established.

1. The Plaintiff-Appellant asks this Court to reconsider its precedents requiring a showing of bad faith in order to recover monetary damages. However, we have twice remanded this case specifically to determine the existence of bad faith. *See ISCYRA II*, 146 F.3d at 71, 73; *ISCYRA I*,

80 F.3d at 753. To change the legal standard at this point in the litigation would violate the law of the case. *See North River Insurance Co. v. Philadelphia Reinsurance Corp.*, 63 F.3d 160, 164-165 (2d Cir. 1995). Moreover, precedents of this Court must be followed by a panel in the absence of in banc rehearing.

2. A finding of bad faith in a trademark infringement case is subject to review only for clear error. *See ISCYRA I*, 80 F.3d at 753. The District Court found that unrebutted evidence showed that "the sales of [Hilfiger's] garments were driven by the prominent use of defendant's name, initials and crests, which identified the garments as [Hilfiger's] products, and not the words 'Star Class.'" *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, No. 94 Civ. 2663 (RPP), 1999 WL 108739, at *1 (S.D.N.Y. Mar. 3, 1999). From this fact the Court inferred that "there would be little, if any, motivation for bad faith appropriation" of ISCYRA's mark by Hilfiger in order to confuse or deceive consumers or to profit from the Association's reputation. *Id.* Moreover, the trademark search conducted by Hilfiger's attorneys, which was restricted to clothing classifications, found no mark for "Star Class." Thus, the Court found, there was "no showing that Hilfiger had knowledge of the existence of [ISCYRA] or of the mark's association with any entity at all, let alone any commercial use of the designation Star Class." *Id.*

The District Court also found that, based on the holdings of contemporary trademark cases, Hilfiger did not have an obligation to conduct a more extensive trademark search in 1994. The Court found that Hilfiger's use of the Star Class mark as a decoration rather than as a trademark was consistent with the advice of Hilfiger's attorney that "*use* and *registration*" would require a full trademark search. *Id.* at *2. Moreover, the Court found that the advice of Hilfiger's

attorney that "Star Class" would be a weak trademark because of the common use of the terms "Star" and "Class" encouraged Hilfiger to believe that the use of the term was permissible. *See id.* Finally, the Court found that Hilfiger's continued sale of infringing garments after it denied Hilfiger's motion for summary judgment did not indicate bad faith. *See id.* at *3.

From all of these subsidiary findings, the District Court made its ultimate finding that Hilfiger had not acted in bad faith.

Although there is some evidence that points toward the existence of bad faith, we cannot say, after review of the record, that we are "'left with [the] definite and firm conviction that a mistake has been committed.'" *McNeil-P.C.C., Inc. v. Bristol-Myers Squibb Co.*, 938 F.2d 1544, 1550 (2d Cir. 1991) (quoting *Anderson v. City of Bessemer City*, 470 U.S. 564, 573 (1985)). Accordingly, we affirm.

FOR THE COURT,
KAREN GREVE MILTON, Acting Clerk

By: /s/ LUCILLE CARR
Lucille M. Carr, Operations Manager

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

Docket No. 99-7329
Filed April 3, 2000
Received April 6, 2000

At a stated Term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the 3rd day of April, two thousand.

PRESENT: HON. RALPH K. WINTER,
Chief Judge,
HON. JON O. NEWMAN,
HON. JOHN M. WALKER, JR.,
Circuit Judges.

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff-Appellant,

—v.—

TOMMY HILFIGER,

Defendant-Appellee.

A petition for panel rehearing and a petition for rehearing en banc having been filed herein by the appellant International Star Class Yacht Racing Association.

> Upon consideration by the panel that decided the appeal, it is Ordered that said petition for rehearing is DENIED.

It is further noted that the petition for rehearing en banc has been transmitted to the judges for the court in regular active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

FOR THE COURT
KAREN GREVE MILTON, Acting Clerk

By: /s/ BETH J. MEADOR
Beth J. Meador,
Administrative Attorney

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

August Term, 1997

(Argued: March 5, 1998 Decided: May 29, 1998)

Docket Nos. 97-7761, -7799

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff-Appellant-Cross-Appellee,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Defendant-Appellee-Cross-Appellant.

Before:

OAKES, NEWMAN and CABRANES,

Circuit Judges.

The International Star Class Yacht Racing Association ("ISCYRA") appeals from the decision of the United States District Court for the Southern District of New York, Robert P. Patterson, Jr., *Judge*, denying ISCYRA monetary relief and attorney fees for the infringing use of ISCYRA's mark "Star Class" by Tommy Hilfiger U.S.A., Inc. ("Hilfiger"). The district court held that ISCYRA had failed to demonstrate that Hilfiger used the mark in bad faith. Hilfiger cross-appeals the district court's calculation of damages without considering evidence of Hilfiger's costs and other deductions and its decision to strike the testimony of Hilfiger's lead trial counsel.

Vacated on appeal, vacated in part and affirmed in part on cross-appeal, and remanded.

J. JOSEPH BAINTON, New York, NY (Thomas D. Drescher, John G. McCarthy, Ross & Hardies, of counsel), *for Plaintiff-Appellant-Cross-Appellee*.

LOUIS S. EDERER, New York, NY (Joseph H. Lessem, Cowan, Liebowitz & Latman, P.C.; Steven Gursky, Robert Devlin, Gursky & Associates, of counsel), *for Defendant-Appellee-Cross-Appellant*.

OAKES, *Senior Circuit Judge*:

The International Star Class Yacht Racing Association ("ISCYRA") appeals from the decision of the United States District Court for the Southern District of New York, Robert P. Patterson, Jr., *Judge*, denying ISCYRA monetary

relief and attorney fees for the infringing use of ISCYRA's mark "Star Class" by Tommy Hilfiger U.S.A., Inc. ("Hilfiger"). The district court held that ISCYRA had failed to demonstrate that Hilfiger used the mark in bad faith. Hilfiger cross-appeals the district court's calculation of damages without considering evidence of Hilfiger's costs or the percentage of profits from sales attributable to Hilfiger's mark rather than ISCYRA's, and its decision to strike the testimony of Hilfiger's lead trial counsel. We vacate and remand the court's findings as to Hilfiger's bad faith because the district court improperly relied on factual findings from an earlier, unrelated antitrust case. We also vacate the district court's determination as to Hilfiger's costs and deductions, but affirm the decision to exclude the testimony of Hilfiger's counsel.

I. BACKGROUND

ISCYRA is a non-profit corporation created to govern and promote the sport racing of a class of sail boats known as "Star Class" yachts. ISCYRA owns the rights to the design of Star Class boats, and monitors the construction, certification, and registration of vessels in this class. One hallmark of a Star Class vessel is that it must display a solid five-point star on its main sail. ISCYRA also uses the star along with the words "Star Class" on hats, clothing, pins, and decals sold to the public. ISCYRA permits yacht clubs hosting regattas to use the star insignia and the term "Star Class" on promotional materials, and collects royalties for the use of these marks on clothing and other marketable materials. ISCYRA has never registered "Star Class" for federal trademark protection.

In March 1994, ISCYRA learned that Tommy Hilfiger, a leading designer and marketer of men's clothing, was manufacturing and selling garments bearing the words "Star Class" with the star insignia. Promotional materials issued

with the collection described the clothing as "classic nautical sportswear" with "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails.[1] Hilfiger's name and logo also appeared on most of the garments.

While designing the clothes, Hilfiger had requested from its attorneys a trademark screening search for the words "Star Class." Hilfiger did not specify its intended use of the words, nor did it reveal that it had taken the term from "the sport of competitive sailing." The search was thus limited to registered federal trademarks, with a particular emphasis on trademarks in class 25, a clothing classification. One of Hilfiger's attorneys, Neil A. Burstein, reported to Hilfiger that he had found no competing marks in his search, and stated, "At this point, we would not necessarily rule out your use and registration of this mark, *subject to our usual disclaimers regarding the need to first obtain and review a full trademark search.*" (emphasis in original). Hilfiger did not conduct a full search of all prior commercial uses of the term until after it was sued by ISCYRA, at which point it learned that "Star Class" was a mark in the yachting context.

On April 13, 1994, ISCYRA sued Hilfiger for false designation of origin under the Lanham Act, 15 U.S.C. § 1125(a) (1994), common law trademark infringement, and injury to its business reputation and trademark dilution under New York state law. On April 25, 1995, the district court granted ISCYRA a permanent injunction to bar Hilfiger's use of the mark "Star Class," but declined to award monetary relief or attorney fees because it deter-

---

[1] Hilfiger's designer admitted at trial to examining books and other materials on sailboat racing which referred to Star Class racing and Star Class boats while designing the collection. *See ISCYRA v. Tommy Hilfiger U.S.A., Inc.*, No. 94 Civ. 2663, 1995 WL 241875, at *3 (S.D.N.Y. April 26, 1995).

mined that ISCYRA had not sustained any actual damages and that Hilfiger had not used the mark in bad faith.

ISCYRA appealed to this Court, which affirmed in part and vacated in part. *See ISCYRA v. Tommy Hilfiger, U.S.A., Inc.*, 80 F.3d 749 (2d Cir. 1996). We ruled that the district court had made erroneous and incomplete findings of fact and remanded for further consideration of whether Hilfiger had willfully infringed ISCYRA's mark. In particular, we held that the district court should have considered as evidence relevant to determining bad faith Hilfiger's failure to follow its attorneys' advice to conduct a full search and Hilfiger's continued marketing of the "Star Class" clothing after ISCYRA had filed suit. *Id.* at 754.

On remand, the district court again determined that insufficient evidence existed to show that Hilfiger had used ISCYRA's mark in bad faith. The district court initially allowed Hilfiger to reopen the record to present additional testimony by Hilfiger's lead counsel, Steven Gursky, relating to the legal advice received by Hilfiger prior to using ISCYRA's mark. However, in its opinion issued on March 4, 1997, the district court rejected this new testimony *in toto*, reasoning that Hilfiger was on notice in the first trial that bad faith was at issue, and should have introduced all relevant evidence then. The court then considered the two elements deemed important by this Court—the failure to conduct a full search in contravention of the disclaimer contained in Burstein's letter, and the continued sale of garments after the commencement of the suit. As to the failure to conduct a full search, the district court evaluated the disclaimer letter in light of the court's understanding of prevailing industry practice in trademark searches. To establish industry custom, the district court took judicial notice of facts and testimony from *Corsearch v. Thomson & Thomson*, 792 F. Supp. 305 (S.D.N.Y. 1992), an antitrust case that the district judge had tried in 1991 concerning trademark search firms. The court found that standard

industry practice was to conduct only "knock-out" or "rule-out" searches of names and symbols in the database of federally registered trademarks before using a contemplated mark, and that comprehensive or more sophisticated searches were reserved, when ordered at all, for marks that were seriously being considered for trademark registration. *ISCYRA v. Tommy Hilfiger, U.S.A., Inc.*, 959 F. Supp. 623, 625-26 (S.D.N.Y. 1997) (citing *Corsearch*, 792 F. Supp. at 311). The court therefore interpreted Burstein's disclaimer as boilerplate cautionary language, referring to the need to conduct a full search only if Hilfiger intended to register the term "Star Class" and use it as a stand-alone trademark. As Hilfiger claimed to use the term "Star Class" only as decoration and not as a stand-alone trademark, the court concluded that "there was no reason for Hilfiger to order its law firm to undertake a full search," and that its failure to do so was not inconsistent with its attorneys' advice. *ISCYRA*, 959 F. Supp. at 627-28.

Finally, the court found that Hilfiger's continued sale of garments bearing the "Star Class" mark was consistent with the opinion of Hilfiger's attorneys that ISCYRA's non-registered mark was entitled to "rather weak" protection, and thus was also not evidence of bad faith. *Id.* at 628-29. Anticipating the possibility that this Court might not agree on appeal, the district court determined, as evidence of damages, that Hilfiger shipped $818,419.85 worth of infringing goods after receiving ISCYRA's cease-and-desist letter. The court made no deduction for Hilfiger's costs because "[d]efendant offered no evidence of its costs attributable to these sales." *Id.* at 629. The court denied both ISCYRA's and Hilfiger's motions for reconsideration on June 5, 1997. This appeal followed.

II. DISCUSSION

On appeal, ISCYRA contends that the district court relied on erroneous conclusions of law and fact in making its determinations. Among other claims, ISCYRA argues (1) that it was improper for the court judicially to notice facts from *Corsearch* that were outside the record of this case, and (2) that the court erred in not considering all of Hilfiger's profits as evidence of damages, rather than just profits from sales made after receipt of ISCYRA's cease-and-desist letter. Hilfiger cross-appeals the decision to disregard the testimony of its counsel, Steven Gursky, and the court's failure to consider evidence of Hilfiger's costs contained in one of ISCYRA's exhibits, and evidence of sales due to the appeal of Hilfiger's mark in calculating damages.

A. Judicial Notice

The Federal Rules of Evidence provide that courts may only take judicial notice of facts outside the trial record that are "not subject to reasonable dispute." Fed. R. Evid. 201(b). Such facts must either be "(1) generally known within the territorial jurisdiction of the trial court or (2) capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned." *Id.*; *see also Alvary v. United States*, 302 F.2d 790, 794 (2d Cir. 1962). Because the effect of judicial notice is to deprive a party of the opportunity to use rebuttal evidence, cross-examination, and argument to attack contrary evidence, caution must be used in determining that a fact is beyond controversy under Rule 201(b). *See* Fed. R. Evid. 201(b) advisory committee notes; *cf. Brown v. Piper*, 91 U.S. 37, 43 (1875) ("Care must be taken that the requisite notoriety exists. Every reasonable doubt upon the subject should be resolved promptly in the negative.").

In this case, the district court relied on statements of fact contained in its 1992 *Corsearch* opinion to establish prevailing trademark search practices in 1993.[2] This was error. As we stated in *Liberty Mutual Ins. Co. v. Rotches Pork Packers, Inc.*, 969 F.2d 1384 (2d Cir. 1992), "A court may take judicial notice of a document filed in another court 'not for the truth of the matters asserted in the other litigation, but rather to establish the fact of such litigation and related filings.' " *Id.* at 1388 (holding that facts contained in a bankruptcy court order were an improper subject for judicial notice) (quoting *Kramer v. Time Warner Inc.*, 937 F.2d 767, 774 (2d Cir. 1991)). Facts adjudicated in a prior case do not meet either test of indisputability contained in Rule 201(b): they are not usually common knowledge, nor are they derived from an unimpeachable source. *See, e.g., United States v. Jones*, 29 F.3d 1549, 1553 (11th Cir. 1994) (holding that findings concerning the defendant's work habits made by another district court in a separate litigation were not sufficiently indisputable to be judicially noticed); *Holloway v. Lockhart*, 813 F.2d 874, 879 (8th Cir. 1987)

---

[2] The court considered such evidence relevant to interpreting the disclaimer contained in Burstein's letter and in evaluating Hilfiger's response to the letter. While we agree that industry custom is relevant to determining whether Hilfiger engaged in 'willful blindness' by refusing to conduct a more comprehensive search, such evidence would not necessarily be dispositive of the question. For instance, even if 'knockout' searches are sufficient in the usual case, here Hilfiger was aware that it was lifting "authentic details from the sport of competitive sailing." As we said in *ISCYRA I*, "Given Hilfiger's awareness that it was copying . . . 'from the sport of competitive sailing,' it should have shown greater concern for the possibility that it was infringing on another's mark." 80 F.3d at 753. We believe that Hilfiger's failure to conduct a full search therefore must be evaluated not only in light of industry custom, but also in light of its knowledge that 'Star Class' might be a mark in the yachting context, together with any other factors that might prove or negate bad faith.

(declining to allow judicial notice of finding in a related litigation that use of tear gas against a group of inmates was reasonable and necessary because that fact could only be ascertained by independent examination and evaluation of witnesses); *Ujvari v. United States*, 212 F. Supp. 223, 228 (S.D.N.Y. 1963) (refusing to take judicial notice of exchange rates found in previous Tax Court cases because court must independently determine questions of fact in case before it).[3] The suggestion has also been made that allowing courts to rely on factual findings from previous cases could render the doctrine of collateral estoppel superfluous, *see* 21 Charles Alan Wright & Kenneth W. Graham, *Federal Practice and Procedure: Evidence* § 5106 at 245 (Supp. 1998); *Jones*, 29 F.3d at 1553, though this may overstate the case.

Moreover, prevailing trademark search practices may well have changed or developed in the intervening years between the *Corsearch* trial and the events at issue in this case. ISCYRA cites to at least one article on the subject, published in 1994, stating that the "usual" practice for trademark counsel is to conduct a full search once a mark passes its initial screening. *See* Glenn A. Gundersen, *Trademark Searching: A Practical and Strategic Guide to the Clearance of New Marks in the United States* 17 (1994). Since the industry practice is subject to dispute, ISCYRA is entitled to "have its 'day in court,' and, through time-honored methods, test the accuracy of [Hilfiger's] submissions and introduce evidence of its own." *Oneida Indian Nation of New York v. State of New York*,

---

[3] The cases cited by the district court in its opinion denying the parties' motions for reconsideration do not apply. In those cases, the appellant had either waived its right to object to the use of judicial notice, *see United States v. Vasquez-Guerrero*, 554 F.2d 917, 919 n.1 (9th Cir. 1977), or the decision pre-dated the enactment of Rule 201(b), *see, e.g., In re Diversey Hotel Corp.*, 165 F.2d 655, 657 (7th Cir. 1948).

691 F.2d 1070, 1086 (2d Cir. 1982) (favoring this course to judicial notice where secondary sources are disputed).[4]

Hilfiger claims that a remand is unnecessary since the district court relied on Burstein's trial testimony and prior case law, as well as facts contained in the *Corsearch* opinion, to ascertain that defendant's minimal trademark search efforts did not constitute willful infringement. While the district court did consider these other materials, it used these sources primarily to bolster the conclusions found in the *Corsearch* opinion. *See ISCYRA*, 959 F. Supp. at 626, 627-28. For instance, the court evaluated Burstein's testimony in light of its agreement with the trade practices revealed in *Corsearch*. *Id.* at 628. Because the district court did not independently evaluate the significance of this other evidence, we cannot say that the court would have reached the same conclusions without relying on the *Corsearch* findings. We therefore vacate the lower court opinion without reaching the bulk of ISCYRA's other claims, and remand for further proceedings.

---

[4] Our analysis is not changed by ISCYRA's failure to object to the district court's consideration of findings from *Corsearch* at the second trial because the district court never explicitly informed the parties that it planned to rely on the *Corsearch* opinion. Indeed, in its only comments on the subject, the court appeared to acknowledge that such reliance would be improper. *See, e.g.*, Tr. at 572 ("Let me tell you something that troubled me when I reviewed the Court of Appeals' opinion. I think, maybe unbeknownst to myself, I unwittingly took into account testimony I heard in the Thomson & Thomson case as to how people go about ordering trademark searches as a regular course of business, and when they use the scan and when they go for a full search. And I don't know how to divorce what I learned there from the record here. . . . I leave it with you as maybe you have thoughts about it."). ISCYRA therefore could not reasonably be expected to raise the issue until after the district court issued its opinion.

B. Profits

The one remaining issue in ISCYRA's appeal that we address is whether the district court erred by not considering, as evidence of damages, all of Hilfiger's profits from sales of "Star Class" clothing, rather than just profits from sales made after the receipt of the cease-and-desist letter. A district court faced with a Lanham Act violation possesses "some degree of discretion in shaping [the] relief" according to the principles of equity and the individual circumstances of each case. *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir. 1992) (citing 15 U.S.C. § 1117(a) (1994)). Nevertheless, that discretion must operate within the parameters for allowing an accounting of profits in this circuit. *Id.*

We have held that an accounting for profits is available, even if a plaintiff cannot show actual injury or consumer confusion, " 'if the accounting is necessary to deter a willful infringer from doing so again.' " *Id.* (quoting *Burndy Corp. v. Teledyne Indus., Inc.*, 748 F.2d 767, 772 (2d Cir. 1984)). As with the decision to award profits at all, the decision whether to award a full or partial accounting must be based on what is necessary to deter future misconduct. In *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970), a case concerning particularly egregious infringement of a competitor's mark, we stated that "the only way the courts can fashion a strong enough deterrent is to see to it that a company found guilty of willful infringement shall lose *all* its profits from its use of the infringing mark." (emphasis in original). While this language could be read to suggest that a defendant must disgorge all of its profits any time willful infringement is proved, more recent cases establish that a district court has discretion to fashion an alternative remedy, or to award only a partial accounting, if the aims of equity would be better served. *See George Basch*, 968 F.2d at 1540 (stating

that a finding of willful infringement is necessary but not sufficient to award an accounting for profits); *Allen v. Men's World Outlet*, 679 F. Supp. 360, 371 (S.D.N.Y. 1988) (declining to award an accounting for profits for willful use of the plaintiff's likeness in an advertisement because a permanent injunction would adequately serve the goal of deterrence). As the record here is unclear as to the egregiousness of Hilfiger's conduct, we express no opinion at this stage as to the appropriate award of profits that might be necessary to deter future wrongdoing. We leave this question for the district court to consider, if necessary, on remand.

On its cross-appeal, Hilfiger claims that the district court improperly calculated the profits due to ISCYRA by disregarding evidence of Hilfiger's costs and other deductions offered at trial. We are inclined to agree. As to costs, Hilfiger points to cost figures contained in one of ISCYRA's exhibits. Although this evidence was introduced by ISCYRA to demonstrate Hilfiger's sales, ISCYRA did not specify any limitations as to its contents or usage. Moreover, the cost figures in Exhibit 90 were mentioned at one point during the trial when the sales figures were corrected. Although defendant's counsel neglected to alert the District Judge to its claim that Exhibit 90 provided a basis for deriving a profit margin, the existence of the cost data in the record undermines the court's finding that no evidence of costs existed. On remand, the district court should consider such evidence, if necessary, according it whatever weight is appropriate.

Hilfiger further claims that the district court should have subtracted the percentage of profits attributable to Hilfiger's mark rather than ISCYRA's in assessing any award to ISCYRA. In *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 206 (1942), the Supreme Court held that a plaintiff "is not entitled to profits demonstrably not attributable to the unlawful use of his

mark," but that the burden of proving any deduction for sales not based on the infringing mark falls upon the infringer. *Id.* at 206-07; *see also* 15 U.S.C. § 1117 (1994); *George Basch*, 968 F.2d at 1540 (listing the degree of certainty that the defendant benefitted from its unlawful conduct as one factor to consider in determining whether to order an accounting for profits in cases of willful infringement). Hilfiger presented evidence at trial through the testimony of Allan Zwerner, a buyer for a large chain of department stores, that some portion of the sales of its nautical sportswear line was attributable to the appeal of Hilfiger's well-known mark and reputation. The district court may consider this evidence on remand in assessing whether Hilfiger has met its burden of proof.

However, where infringement is especially malicious or egregious, allowing a defendant, especially a dominant competitor who has made use of the mark of a weaker entity, to deduct profits due to its own market dominance in some circumstances inadequately serves the goal of deterrence. *See Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d-1210, 1222-23 (8th Cir. 1976) (declining to allow an eighty percent deduction for profits attributable to strong consumer association with the mark of a well-known infringer that had copied the distinctive design of a competitor); *cf. W.E. Bassett*, 435 F.2d at 664 (ordering a full accounting of all profits where Revlon deliberately made use of the mark of a smaller competitor because such a remedy was "the only way the courts can fashion a strong enough deterrent"). As with ISCYRA's argument on damages, we cannot determine whether this case presents such a situation without further fact-finding by the district court as to the degree of bad faith, if any, displayed by Hilfiger. We therefore leave the issue for the district court to address on remand.

C. Exclusion of Gursky's Testimony

Finally, Hilfiger claims that it has been unfairly prejudiced by the district court's exclusion of testimony by its lead counsel. The decision whether to hear additional evidence on remand is within the sound discretion of the trial court judge. *Springs Mills, Inc. v. Ultracashmere House Ltd.*, 724 F.2d 352, 355 (2d Cir. 1983). Our review of this case convinces us that no abuse of discretion occurred here.

On remand, Hilfiger sought to introduce Gursky's testimony to rebut any inference that Hilfiger had acted in bad faith by ignoring its counsel's advice. This testimony was rejected because Hilfiger's intent in using the Star Class mark was at issue in the first trial, and Hilfiger had ample opportunity at trial to develop a record and to present any evidence relevant to assessing whether its use of the mark was in good faith. Under these circumstances, the district court could reasonably conclude that the inability to supplement this record on remand would not result in undue prejudice to Hilfiger.

III. CONCLUSION

For the reasons set forth above, we vacate the opinion of the district court, and remand for further proceedings consistent with this opinion.

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 689—August Term, 1995

(Argued December 6, 1995 Decided April 4, 1996)

Docket No. 95-7547

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff-Appellant,

—v.—

TOMMY HILFIGER, U.S.A., INC.,

Defendant-Appellee.

Before:

NEWMAN, *Chief Judge,*
OAKES and CABRANES, *Circuit Judges.*

Appeal from a portion of the judgment of the United States District Court for the Southern District of New York (Robert P. Patterson, Jr., *Judge*), denying appellant an

accounting of defendant's profits, attorney fees, and an injunction against use of its five-pointed star mark under the Lanham Act.

Affirmed in part, vacated in part, and remanded.

J. JOSEPH BAINTON, New York , NY (Thomas D. Drescher, John G. McCarthy, Ross & Hardies, of counsel), *for Plaintiff-Appellant.*

STEVEN BENNETT BLAU, New York, NY (Steven R. Gursky, Gursky & Blau, of counsel), *for Defendant-Appellee.*

OAKES, *Senior Circuit Judge:*

This appeal involved the availability of monetary relief and attorney fees in a trademark infringement action brought under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1994). The International Star Class Yacht Racing Association ("ISCYRA") appeals from a portion of the judgment of the United States District Court for the Southern District of New York (Robert P. Patterson, Jr., *Judge*), entered on May 19, 1995. The district court, after a bench trial, granted ISCYRA's application for a permanent injunction against use of its "STAR CLASS" mark by the appellee Tommy Hilfiger U.S.A., Inc. ("Hilfiger") but denied injunctive relief as to ISCYRA's insignia, a solid five-pointed star. The district court also denied ISCYRA an accounting of Hilfiger's profits, actual damages, and attorney fees.

ISCYRA contends that the district court's denial of an accounting and fees was based on its erroneous finding that Hilfiger showed no bad faith in the use of ISCYRA's unregistered mark. ISCYRA also argues that there was sufficient consumer confusion generated by Hilfiger's products to justify the award of actual damages. Finally, ISCYRA contests the district court's conclusion that it is entitled to no trademark protection for its five-pointed star insignia. Because we find that the district court made erroneous and incomplete factual findings on the issue of Hilfiger's bad faith, we vacate its denial of an accounting of profits and attorney fees and remand for reconsideration of the bad faith issue. On the other two points, we affirm.

BACKGROUND

ISCYRA is a non-profit corporation founded in 1922 for the purpose of governing and promoting the sport of Star Class yacht racing. Star Class sailboats are sophisticated one-design racing craft sailed in high-profile regattas and championship series around the world, including the Summer Olympics. ISCYRA owns the rights to the design of Star Class boats and closely monitors the construction, certification, and registration of each boat in the class. One requirement of a genuine Star Class boat is that its main sail bear the solid red five-pointed star which serves as ISCYRA's insignia or a star of green, blue, silver or gold awarded at ISCYRA championship races. The red star is also used, along with the words "STAR CLASS", on the yachting hats, clothing, flags, decals and pins sold by ISCYRA. ISCYRA permits yacht clubs hosting regattas to use the insignia and "STAR CLASS" on promotional items, and has collected royalties for their use in jewelry and posters.

Hilfiger is a successful designer and marketer of men's clothing with sales of over $227 million in 1993. Its 1994 Spring Collection included garments bearing the words "STAR CLASS" with a solid red five-pointed star. These garments were marketed as "classic nautical sportswear" with "authentic details taken from the sport of competitive sailing" and "elements and pattern taken directly from actual racing sails." Hilfiger's name and flag trademarks also appeared prominently on all the garments, which were marketed in the United States and abroad.

While designing the 1994 Spring Collection, Hilfiger requested a trademark screening search for the words "STAR CLASS" from its attorneys. Hilfiger did not specify that it planned to use the words on 'nautical' clothing with details from "competitive sailing," and the search was limited to federal trademarks in class 25, a clothing classification. The screening search did not reveal any identical registered or applied-for federal trademarks, but Hilfiger's attorneys advised it to conduct a "full trademark search" before using the words "STAR CLASS." Hilfiger did not conduct such a search until after it was sued by ISCYRA, at which point it learned that "STAR CLASS" was indeed a mark in the yachting context.

In April 1994, ISCYRA initiated this action against Hilfiger for false designation of origin under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1994), common law trademark infringement and unfair competition, and injury to business reputation and trademark dilution under New York state law. Despite notice of ISCYRA's suit and the results of the full trademark search, Hilfiger did not recall its allegedly infringing merchandise from retailers and had sold over $3 million worth of garments bearing the "STAR CLASS" mark by the time the case came to trial in January 1995. No one from Hilfiger took the witness stand during the two-day bench trial.

The district court granted ISCYRA's application for a permanent injunction under the Lanham Act against use of its "STAR CLASS" mark by Hilfiger, but denied injunctive relief as to ISCYRA's insignia, a solid five-pointed star. The district court also denied ISCYRA's request for accounting of profits, actual damages, and attorney fees, and dismissed ISCYRA's state law and unfair competition claims.

On appeal, ISCYRA argues that the district court erred in denying an accounting and attorney fees based on its conclusion that Hilfiger did not act in bad faith in using the "STAR CLASS" mark. ISCYRA maintains that (1) Hilfiger's failure to conduct a comprehensive trademark search; (2) Hilfiger's failure to recall garments bearing "STAR CLASS" from its inventory and its continued sales of these garments after ISCYRA's lawsuit put it on notice of ISCYRA's common law trademark; and (3) the evidence of Hilfiger's intentional copying of ISCYRA's mark were sufficient to establish bad faith and warrant both an accounting of Hilfiger's profits and the award of attorney fees. ISCYRA further argues that the district court clearly erred both in denying actual damages because no actual confusion was caused by Hilfiger's merchandise and in finding that ISCYRA had no protectible trademark rights in its five-pointed star insignia. We agree with ISCYRA that the district court's bad faith finding is based on incomplete findings of fact and erroneous conclusions. We therefore vacate the denial of an accounting of profits and attorney fees, which rested on the finding of an absence of bad faith, and remand the case to the district court for reconsideration of Hilfiger's bad faith. We affirm the remainder of the district court's decision.

DISCUSSION

I. The Standards for Monetary Relief and Attorney Fees

Section 35(a) of the Lanham Act governs claims for monetary relief and attorney fees made by plaintiffs who have successfully established a trademark violation. It provides:

> the plaintiff shall be entitled, . . . subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action . . . . The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C. § 1117(a) (1994). Applying Section 35(a), the district court found that ISCYRA could not recover an accounting of Hilfiger's profits, actual damages, or attorney fees. We review the district court's decision for abuse of discretion. *George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532, 1537 (2d Cir.), *cert. denied*, 506 U.S. 991 (1992); *Goodheart Clothing Co., Inc. v. Laura Goodman Enterprises, Inc.*, 962 F.2d 268, 272 (2d Cir. 1992).

Proof of actual confusion is ordinarily required for recovery of damages for pecuniary loss sustained by the plaintiff. *Restatement (Third) of Unfair Competition* § 36 cmt. i (1995). Such damages may include compensation for (1) lost sales or revenue; (2) sales at lower prices; (3) harm to market reputation; or (4) expenditures to prevent, correct, or mitigate consumer confusion. *Id.* at § 36(2). Because ISCYRA offered no evidence of actual confusion caused by Hilfiger's infringing use of the "STAR CLASS" mark and indeed presented no evidence of pecuniary loss, remedy for these actual damages is not available.

The unavailability of actual damages as a remedy, however, does not preclude ISCYRA from recovering an accounting of Hilfiger's profits or attorney fees. In order to

recover an accounting of an infringer's profits, a plaintiff must prove that the infringer acted in bad faith. *Restatement (Third), supra,* § 37 cmt. E; *George Basch Co.*, 968 F.2d at 1540; *see also Resource Developers Inc. v. Statute of Liberty-Ellis Island Foundation, Inc.*, 926 F.2d 134, 139-40 (2d Cir. 1991); *W.E. Bassett Co. v. Revlon, Inc.*, 435 F.2d 656, 664 (2d Cir. 1970). Similarly, an award of attorney fees may be justified when bad faith infringement has been shown. *Goodheart Clothing*, 962 F.2d at 272; *Quaker State Oil Refining Corp. v. Kooltone, Inc.*, 649 F.2d 94, 95 (2d Cir. 1981) (per curiam). In order to determine whether the district court abused its discretion denying an accounting of Hilfiger's profits and an award of attorney fees, we therefore must turn to its finding that Hilfiger did not act in bad faith when it infringed on ISCYRA's mark.

II. The District Court's Bad Faith Finding

The district court's conclusion that Hilfiger did not act in bad faith or willfully infringe in its use of the "STAR CLASS" mark was based on several factual findings which we review for clear error. *Bambu Sales, Inc., v. Ozak Trading Inc.*, 58 F.3d 849, 854 (2d Cir. 1995); *Nikon, Inc. v. Ikon Corp.*, 987 F.2d 91, 94 (2d Cir. 1993). For the following reasons, we hold these findings to be clearly erroneous and incomplete, necessitating a remand to the district court for further consideration of the issue.

Initially, we note a factual error in the district court's opinion which goes directly to the question of the willfulness of Hilfiger's infringement. The district court stated that the trademark search conducted by Hilfiger prior to its use of ISCYRA's "STAR CLASS" mark was of federal and state marks. In fact, the search was limited solely to registered or applied-for *federal* trademarks; despite its attorneys' advice that a wider search be conducted, Hilfiger did not do one until after ISCYRA filed its suit.

The district court relied on Hilfiger's limited first search as proof that Hilfiger did not "engage in a deceptive commercial practice" or otherwise act in bad faith in using ISCYRA's mark. We are not convinced, however, that such a limited search should exonerate Hilfiger, particularly when Hilfiger ignored the specific advice of its attorneys to search more thoroughly.

The district court also found that although Hilfiger intentionally copied ISCYRA's "STAR CLASS" mark, it did not intend to copy a trademark owned by another. The court recognized that Hilfiger's failure to offer a "credible innocent explanation" for its use of ISCYRA's mark could support an inference of bad faith under *Centaur Communications, Ltd. v. A/S/M Communications,* 830 F.2d 1217, 1228 (2d Cir. 1987). The court nevertheless concluded that Hilfiger had not willfully infringed on ISCYRA's mark, citing as evidence the limited trademark search discussed above.

In light of Hilfiger's minimal efforts to ascertain whether "STAR CLASS" was, in fact, a trademark, we agree with ISCYRA that the district court clearly erred in finding Hilfiger guilty only of simple copying and not of intent to copy a mark. Given Hilfiger's awareness that it was copying "authentic details . . . from the sport of competitive sailing," it should have shown greater concern for the possibility that it was infringing on another's mark. Hilfiger's choice not to perform a full search under these circumstances reminds us of two of the famous trio of monkeys who, by covering their eyes and ears, neither saw nor heard any evil. Such willful ignorance should not provide a means by which Hilfiger can evade its obligations under trademark law.

In addition to the district court's two clearly erroneous findings, we believe that its analysis of Hilfiger's bad faith was incomplete. First, the district court did not address the fact that Hilfiger failed to conduct a full trademark search

on "STAR CLASS" before using the mark in direct contravention of the advice of its attorneys. Other courts have found that an infringer who "acts in reasonable reliance on the advice of counsel" generally cannot be said to have acted in bad faith. *See, e.g., Sands, Taylor & Wood Co. v. Quaker Oats Co,*. 978 F.2d 947, 962 (7th Cir. 1992), *cert. denied*, 507 U.S. 1042 (1993); *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634, 637-39 (S.D.N.Y. 1984). Conversely, the *failure* to follow the advice of counsel given before the infringement must factor into an assessment of an infringer's bad faith.

Second, the district court gave no consideration to Hilfiger's conduct after ISCYRA brought suit for trademark infringement. The suit gave Hilfiger notice of its potential trademark violation, and the full trademark search that it conducted soon thereafter confirmed the existence of ISCYRA's mark. Hilfiger nonetheless continued to sell its merchandise with the infringing mark, racking up over $3 million in sales, without regard for the rights of ISCYRA. As counsel for Hilfiger admitted during oral argument, Hilfiger was betting on the fact that ISCYRA would not prevail in its suit. Hilfiger lost that bet, and should not escape the consequences of its conduct. *See Stuart v. Collins*, 489 F. Supp. 827, 832 (S.D.N.Y. 1980) (finding willful infringement when defendant continued to use plaintiff's mark after plaintiff's attorney demanded that it cease, thereby giving "short shrift to plaintiff's claim out of arrogance and confidence that he would not mount any significant legal attack"); *see also Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1132, 1135 (9th Cir. 1986) (courts should remove economic incentive to engage in infringing activity); *W.E. Bassett Co.*, 435 F.2d at 664 (an accounting of profits serves to deter willful infringers).

As recognized by the Restatement, an accounting of profits should be limited to cases of fraudulent infringe-

ment, i.e. "to acts intended to create confusion or deceive prospective purchasers," *Restatement (Third), supra,* § 37 cmt. e., and not be awarded in cases where a defendant "deliberately but in good faith used a mark." *Id.* We note that, under this standard, Hilfiger cannot lay claim to a "good faith" belief that it was not infringing on ISCYRA's mark because it neither fully explored others' rights to "STAR CLASS" nor ceased its infringing behavior when it was sued. *See Nalpac, Ltd. v. Corning Glass Works,* 784 F.2d 752, 755-56 (6th Cir. 1986) (exploitation of another's mark after knowledge of its existence suggests bad faith).

We conclude that the district court, in determining whether Hilfiger acted in bad faith, relied on two clearly erroneous factual findings and did not consider all the evidence pertaining to the willfulness of Hilfiger's infringement. We therefore remand the issue of Hilfiger's bad faith for reconsideration in light of our analysis above. As a result, we cannot review the district court's denial of an accounting of profits and attorney fees, but instead must vacate the denial and remand.

III. Protectibility of ISCYRA's Five-Pointed Star Mark

ISCYRA contends that the district court "appears" to hold that ISCYRA enjoys no trademark protection at all in its five-pointed star insignia, and that the court clearly erred to the extent that its opinion so holds. ISCYRA maintains that it has limited trademark protection of the insignia when it is used in relation to yachts or professional sailing.

We agree with the district court that Hilfiger cannot be enjoined from the use of a five-pointed star symbol on its garments and affirm the district court's denial of injunctive relief to ISCYRA as to this mark. We do not read the court's opinion to reach beyond Hilfiger's use of the insignia on clothing in a manner presented by the facts of this case. The issue of the insignia's protectibility in a case

involving yachting or professional sailing, therefore, was not decided by the district court and is not addressed by our affirmance.

CONCLUSION

For the foregoing reasons, we vacate the denial of an accounting of profits and attorney fees, and remand the question whether Hilfiger acted in bad faith by using ISCYRA's "STAR CLASS" mark to the district court for reconsideration. In all other respects, we affirm.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

94 Civ. 2663 (RPP)

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff,

—against—

TOMMY HILFIGER U.S.A., INC.,

Defendant.

OPINION AND ORDER

ROBERT P. PATTERSON, JR., U.S.D.J.

Upon second remand from the Second Circuit, and acting as a finder of fact, this Court finds that plaintiff has not shown that defendant acted in bad faith when it determined to use the plaintiff's unregistered mark "Star Class" as a decoration on certain of its garments.[1] The Court reaches this finding of fact excluding from its consideration the

---

[1] Contrary to the Court of Appeals' finding that "Hilfiger's name and logo also appeared on most of the garments," *International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A. Inc.*, 146 F.3d 66, 68 (2d Cir. 1998), all of the garments had defendant's label. One garment, a sweater bearing in large print "Star Class," did not have in 3-4 inch high letters "Tommy Hilfiger" or "Tommy" on its outside, but did have defendant's label on the inside of the collar, as well as hang tags denoting its origin. The other garments used large letters to highlight the Hilfiger name, as well as labels and hang tags.

evidence of ordinary practice in trademark search matters derived from *Corsearch, Inc. v. Thomson & Thomson*, 792 F. Supp. 305 (S.D.N.Y. 1992).

According to the unrebutted evidence at trial, the sales of defendant's garments were driven by the prominent use of defendant's name, initials and crests, which identified the garments as defendant's products, and not the words "Star Class." In view of the manner of display and labeling, and the prominent use of the Hilfiger marks, there would be little, if any, motivation for bad faith appropriation of plaintiff's mark by defendant. The evidence does not demonstrate that Hilfiger willfully intended to cause confusion or deception or to profit from plaintiff's reputation. *Cf. Lang v. Retirement Living Publ'g Co.*, 949 F.2d 576, 583 (2d Cir. 1991) (determination of infringer's bad faith "looks to whether the defendant adopted its mark with the intention of capitalizing on plaintiff's reputation and goodwill and any confusion between his and the senior user's product"). Tommy Hilfiger U.S.A., Inc. ("Hilfiger") may have had knowledge that it was drawing "authentic details from the sport of competitive sailing," *see* 146 F.3d at 70 n.2, but it had ordered a trademark search of the mark by its attorneys which did "not reveal any identical federal trademark registrations or applications in class 25 [a clothing classification] which would bar your proposed use of this mark." (Pl. Ex. 74, *quoted in International Star Class Yacht Racing Ass'n v. Tommy Hilfiger U.S.A., Inc.*, 959 F. Supp. 623, 626 (S.D.N.Y. 1997), *aff'd in part, vacated in part*, 146 F.3d 66 (2d Cir. 1998).[2]) There is no showing that Hilfiger had knowledge of the existence of the International Star Class Yacht Racing Association (the "ISCYRA") or of the mark's association with any entity at all, let alone any commercial use of the designation Star

---

[2] This caption will hereinafter be referred to as *ISCYRA v. Hilfiger*.

Class.[3] Even knowledge of another's mark does not automatically give rise to an inference of bad faith. *See W.W.W. Pharm. Co. v. Gillette Co.*, 984 F.2d 567, 575 (2d Cir. 1993); *Lang*, 949 F.2d at 583-84; *Sweats Fashions, Inc. v. Pannill Knitting Co.*, 833 F.2d 1560, 1565 (Fed. Cir. 1987); *Karmikel Corp. v. May Dep't Stores Co.*, 658 F. Supp. 1361, 1375-76 (S.D.N.Y. 1987); *Edison Bros. Stores, Inc. v. Cosmair, Inc.*, 651 F. Supp. 1547, 1560 (S.D.N.Y. 1987). As in *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532, 1540-41 (2d Cir.), *cert. denied*, 506 U.S. 991 (1992), in which the defendant's intention to imitate the plaintiff's trade dress was found insufficient, in itself, to support of bad faith, Hilfiger's knowledge that it was copying details from the sport of sailing does not show that it engaged in willful deception.

Furthermore, it is not dispositive that Hilfiger failed to conduct a more extensive search than a Federal Registration and Application screening within class 25. The Court finds that Hilfiger did not have an obligation, at the relevant time in 1994, to do a more extensive search in view of the holdings in *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947 (7th Cir. 1992), *cert. denied*, 507 U.S. 1042 (1993). *Zazu Designs v. L'Oreal S.A.*, 979 F.2d 499 (7th Cir. 1992), and *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70 (2d Cir. 1988); *see also Sunenblick v. Harrell*, 895

---

[3] Hilfiger's designer admitted at trial to examining books and other materials on sailboat racing which referred to Star Class racing and Star Class boats. *See* 146 F.3d at 68 n.1. This evidence may give rise to an inference that Hilfiger copied the Star Class mark, but it does not prove that the marks were known by Hilfiger or its agents to be trademarks of the ISCYRA or any other entity. *See ISCYRA*, 959 F. Supp. at 626; *ISCYRA v. Hilfger*, No. 94 Civ. 2663, 1995 WL 241875, at *3, *11-*12 (S.D.N.Y. April 26, 1995), *aff'd in part, vacated in part*, 80 F.3d 749 (2d Cir. 1996). The Star Class mark is a descriptive mark, *see id.* at *7, and there is insufficient evidence to show that when Hilfiger imitated the mark it intended to copy a trademark. *See id.* at *12.

F. Supp. 616, 633 (S.D.N.Y. 1995) (failure to conduct a trademark search does not, in itself, support finding of bad faith), *aff'd*, 101 F.3d 684 (2d Cir.), *cert. denied*, 117 S. Ct. 386 (1996); *Oxford Indus. Inc. v. JBJ Fabric Inc*, 6 U.S.P.Q.2d 1756, 1762 (S.D.N.Y. 1988) (same). This Court finds that defendant's intent to use the Star Class mark as a decoration, not as a trademark, was consistent with the advise of Mr. Burstein, its attorney, who stated, "At this point, we would not necessarily rule out your *use* and *registration* of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search." (Pl. Ex. 74, *quoted in ISCYRA v. Hilfger*, No. 94 Civ. 2663 (RPP), 1997 WL 297031, at *2 n.1 (S.D.N.Y. June 4, 1997), *aff'd in part, vacated in part*, 146 F.3d 66 (2d Cir. 1998).) "Use and registration" are the requirements for obtaining a federal registration for a stand alone mark, *see id.*, and *use* of the Star Class mark as a decoration without a full search—as opposed to "use and registration"—was not in disregard of the advice of defendant's attorneys.[4] Defendant's attorneys indicated only that if defendant was seeking to protect this mark as its own, it should have a full trademark search. (Trial Tr. at 336-37.) Defendant had no intention of using the mark in this fashion. In any case, Ms. Luparello, a non-lawyer who was an assistant to Hilfiger's CEO, and who had responsibilities for interfacing with Hilfiger's attorneys, was told that a search had been conducted and there was no bar to defendant's use of the mark. Mr. Burstein's later language was not shown to have had the significant effect on Ms. Luparello that plaintiff has argued for. (Luparello Dep. at 354-356.)

Furthermore, Mr. Burstein's letter had advised defendant: "STAR CLASS would be a rather weak trademark. This is because the words "STAR" and "CLASS" are non-

[4] It should be noted that the full Thomson & Thomson search only described ISYCRA's use of the term as designating "yacht club membership." (Pl. Ex. 79.)

distinctive terms used extensively in other fields by third parties." (Trial Tr. at 310; Pl. Ex. 74, *quoted in ISCYRA*, 1997 WL 297031, at *5.) This conclusion was not unreasonable. Indeed, as the Court noted in its decision after trial, it was a "close question" whether or not plaintiff had any trademark rights. *ISCYRA*, 959 F. Supp. at 620. While defendant's efforts to ascertain whether Star Class was, in fact, a trademark must be evaluated in conjunction with its awareness that it was copying details from the sport of sailing, *see ISCYRA v. Hilfiger*, 80 F.2d 749, 753 (2d Cir. 1996); *ISCYRA*, 146 F.3d at 70 n.2., they also must be considered in light of Mr. Burstein's advice that any entity's claim to the Star Class mark would be weak. Even had defendant conducted a full trademark search and acquired actual knowledge of prior use of the Star Class mark by plaintiff, a finding of bad faith would not be required if defendant had relied on the advice of counsel in choosing the mark and not intended to promote confusion or appropriate plaintiff's good will. *See W.W.W.*, 984 F.2d at 575. Further casting doubt on the proposition that defendant acted in bad faith is the minimal value the Star Class mark added to defendant's sales, and the improbability that defendant would choose the mark in the hope of deceiving consumers or capitalizing on plaintiff's reputation. *See Lang*, 949 F.2d at 584. In sum, even considering defendant's knowledge that it was copying details from sailing, the facts suggest that it is unlikely defendant acted in bad faith.

Nor does the continued sale of goods bearing plaintiff's marks after this Court denied Hilfiger's motion for summary judgment indicate bad faith. In its denial of the motion for summary judgment, the Court merely held that whether plaintiff had trademark rights in "Star Class" was an issue of fact. *ISCYRA v. Hilfiger*, 33 U.S.P.Q.2d 1610, 1615 (S.D.N.Y. 1994). It did not reject defendant's argument that plaintiff had no trademark rights in Star Class.

Indeed, as aforementioned, the Court found it a "close question" whether or not plaintiff had any trademark rights at all. Although this Court found the plaintiff's unregistered mark should merit protection in its opinion and order of April 26, 1995, *ISCYRA v. Hilfiger*, No. 94 Civ. 2663, 1995 WL 241875 (S.D.N.Y. April 26, 1995), this Court does not find that defendant's conduct in light of Mr. Burstein's advice was so unjustified as to support a finding of bad faith. In many cases, courts have disagreed with counsel's opinion in trademark infringement matters, but not found defendants to have acted in bad faith. *See Estee Lauder, Inc. v. The Gap, Inc.*, 932 F. Supp. 595, 615 (S.D.N.Y. 1996), *rev'd on other grounds*, 108 F.3d 1503 (2d Cir. 1997); *Cuisinarts, Inc. v. Robot-Coupe Int'l Corp.*, 580 F. Supp. 634, 637 (S.D.N.Y. 1984); *Information Clearing House, Inc. v. Find Magazine*, 492 F. Supp. 147, 161-62 (S.D.N.Y. 1980) (Weinfeld, J.); *A&H Sportswear Co. v. Victoria's Secret Stores, Inc.*, 926 F. Supp. 1233, 1268 (E.D. Pa. 1996), *aff'd*, 49 U.S.P.Q.2d 1493 (3d Cir. 1999).

In view of the fact that (1) Hilfiger was only using the Star Class mark as an embellishment on its Nantucket line of clothing, which was exceedingly well trademarked with the Hilfger name designating the source of the goods, (2) there is no showing that Hilfiger intended to copy a trademark, (3) Hilfiger's conduct was consistent with the advice of its attorneys concerning when a full search would be required, and (4) Hilfiger was reasonably advised by its attorneys that the Star Class mark was weak, the Court finds that the evidence is insufficient to support a finding of bad faith.

The Second Circuit's opinion remanding the case also requested this Court to make determinations as to (1) whether defendant should account to plaintiff for all of its profits from sales of clothing using plaintiff's mark, or merely for profits from sales made after receipt of plaintiff's cease and desist letter; (2) the propriety of deducting

defendant's costs of sales; and (3) whether some portion of the sales of nautical sportswear was attributable to the appeal of Hilfiger's well known mark and reputation.

Accordingly, since the Second Circuit may not agree with this Court's finding of insufficient evidence of bad faith or wilful misconduct and may make findings of its own, the following findings are made:

1. Defendant's profits from sales of clothing bearing plaintiff's mark made prior to receipt of plaintiff's cease and desist letter need not be disgorged in order to deter future misconduct, particularly because there is no showing that defendant knew that plaintiff existed or that anyone owned the Star Class mark, or that defendant intended to copy a trademark.

2. According to Exhibit 9, defendant's sales following commencement of this action are $818,419.85, and the cost of such sales is $368,288.93, or 45% of sales. Thus, Hilfiger's profits on those sales amounts to $450,130.92.

3. The evidence shows that the defendant's profits flowed overwhelmingly from the presence on the clothing of "TOMMY HILFIGER" in big letters, the initials "T.H," and the Hilfiger flag design mark. (Trial Tr. at 255-259.) Zwerner, a buyer for Burdinee's, a leading chain of department stores, testified, "The bigger, the more prominent the Tommy Hilfiger designation, crest or name on the garment the better it sells." (*Id.* at 259.) Zwerner testified that, in contract, the words "Star Class" on garments "didn't mean anything except 'He's high class.' " (*Id.*) To the extent it is pertinent, defendant's witness Leeds testified that license fees for use of a trademark license range from 2-1/2 to 6% of gross sales. (Trial Tr. at 286.)

In this Court's judgment, the entry of an injunction against use of plaintiff's trademark was sufficient to deter any further infringement of plaintiff's unregistered mark.

As shown by the Zwerner testimony, the use of the Star Class mark conferred little benefit on Hilfiger. Though this Court does not award damages, if it is necessary to make such an award, the Court finds that in light of the small benefit Hilfiger derived from use of the Star Class mark, those damages would be 2-1/2% of $818,419.85, the gross sales of the infringing product after the suit commenced, or $20,460.50.

Conclusion

The Court finds that plaintiff has not carried its burden of proving by a preponderance of the evidence that defendant acted in bad faith by selling infringing garments before or after the cease and desist order, but that if damages are to be assessed based on bad faith, plaintiff should receive $20,460.50 from defendant.

IT IS SO ORDERED.

Dated: New York, New York
March 2, 1999

/s/ ROBERT P. PATTERSON, JR.
Robert P. Patterson, Jr.
U.S.D.J.

Copies of this Opinion and Order sent to:

Counsel for Plaintiff

BAINTON MCCARTHY & SIEGEL, LLC
130 East 35th Street
New York, NY 10016
By: J. Joseph Bainton, Esq.
John G. McCarthy, Esq.
Tel: 212-725-7780
Fax: 212-725-6920

Counsel for Defendant:

GURSKY & EDERER, P.C.
21 East 40th Street, 15th Floor
New York, NY 10016
By: Louis S. Ederer, Esq.
Steven R. Gursky, Esq.
Tel: 212-213-1234
Fax: 212-213-1245

COWAN, LIEBOWITZ & LATMAN, P.C.
1133 Avenue of the Americas
New York, NY 10036-6799
By: Louis S. Ederer, Esq.
Joseph H. Lessem, Esq.
Tel: 212-790-9200
Fax: 212-575-0671

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

94 Civ. 2663 (RPP)

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff,

—against—

TOMMY HILFIGER U.S.A., INC.,

Defendant.

APPEARANCES

Counsel for Plaintiff:

ROSS & HARDIES
Park Avenue Tower
65 East 55th Street
New York, New York 1022-3219
By: J. Joseph Bainton
John G. McCarthy
Chike I. Chukwulozie
Tel: (212) 421-5555
Fax: (212) 421-5682

Counsel for Defendant:

COWAN, LIEBOWITZ & LATMAN, P.C.
1133 Avenue of the Americas
New York, New York 100386-6799
By: Louis S. Ederer
Joseph H. Lessem
Tel: (212) 790-9200
Fax: (212) 790-9300

OPINION AND ORDER

ROBERT P. PATTERSON, JR., U.S.D.J.

Plaintiff International Star Class Yacht Racing Association ("ISCRYA") moves for reconsideration of this Court's finding in its Opinion and Order entered March 4, 1997 ("March 4, 1997 Opinion") that defendant Tommy Hilfiger U.S.A., Inc. ("Hilfiger") did not copy ISCRYA's trademark in bad faith. Defendant Hilfiger moves to alter and/or amend those parts of the Court's March 4, 1997 Opinion that (a) failed to deduct from the determination of Hilfiger's profits the costs identified in Plaintiff's Exhibit 90 and (b) sustained the objection of plaintiff's counsel to the testimony of Steven Gursky ("Gursky") at the October 24, 1996 hearing.

For the reasons set forth below, both parties' motions are denied.

I. Plaintiff's Motion

Plaintiff argues that this Court's finding in its March 4, 1997 Opinion that Hilfiger did not copy ISCYRA's trademark in bad faith was based on facts that the Court cannot correctly consider because the Court improperly took judicial notice of facts arising out of its personal knowledge of

industry practice as revealed in a case tried before it in 1991, *Corsearch v. Thomson & Thomson*, 792 F.Supp. 305 (S.D.N.Y. 1992).

It is true that generally dicta from past decisions cannot dispose of factual issues in later cases. *See Wooden v., Missouri Pacific R. Co.*, 862 F.2d 560, 563 (5th Cir. 1989) (rejecting appellant's argument that district judge should have taken judicial notice, based on dicta in 1949 Supreme Court opinion, that it was common knowledge in 1950s that working in cloud of silicon dust without respiratory gear could cause severe lung diseases); *see also Gasnik v. State Farm Insurance Co.*, 825 F.Supp. 245, 247 (E.D. Cal. 1992) (rejecting defendant's request that court take judicial notice of its own prior order because prior order is "not an adjudicative fact of which judicial notice can be taken"). A court may, however, "properly notice a doctrine or rule of law from such prior case and apply that principle under the theory of stare decisis." *M/V American Queen v. San Diego Marine Construction Corp.*, 708 F.2d 1483, 1491 (9th Cir. 1983) (upholding district judge's use of findings on reasonableness of certain contract limitations provisions from unpublished orders from same district as partial support for finding of reasonableness of similar limitation provision); *cf. United States v. Vasquez-Guerrero*, 554 F.2d 917, 919 n. 1 (9th Cir.) *cert. denied* 434 U.S. 865 (1977) (district judge had "held comprehensive factual hearings regarding [border control] checkpoints" while trying *United States v. Baca*, 368 F.Supp. 398 (S.D. Cal. 1973); same judge applied those findings at suppression hearing in later unrelated case to determine permissibleness of a border stop; appellate panel adopted findings with regard to suppression hearing because district judge had "explicitly stated at the suppression hearing that he was relying upon *Baca* in holding" that a certain point on the border was a permanent checkpoint, and defense counsel "did not object, except to argue that under subsequent cases, the

legal conclusion was incorrect"); *In re Diversey Hotel Corp.*, 165 F.2d 655, 657 (7th Cir.) *cert. denied*; *Kosdon v. Diversey Hotel Corp.*, 333 U.S. 861 (1948) (in determining whether corporate reorganization filing was in good faith, trial court may take notice of facts brought to its attention in other reorganization proceedings).

In this case, the Court found that Hilfiger did not act in bad faith because it did not ignore the advice of counsel. This finding was based in part on viewing the advice given by Hilfiger's counsel in light of the common industry practice of not always conducting a full trademark search before use of a trademark. This understanding of common industry practice was not based, however, on the Court's own personal knowledge of industry practice. It was based on both Hilfiger attorney Neil Burstein's ("Burstein") testimony that his firm's disclaimer only recommended that Hilfiger perform a full trademark search if "Star Class" was to be used as a "stand-alone mark" (in which case the trademark would be "used and registered"),[1] and on industry practice regarding the nature of trademark searches

---

[1] In its post-hearing brief to this Court plaintiff mischaracterized this advice, stating that "Mr. Burstein told Hilfiger without qualification not to rely on his 'screening search', which was limited solely to registered and applied-for federal trademarks" (See Plaintiff's Revised Second Post-Trial Brief at 20 [citing Pl. Exs. 72, 73 & 74; Trial Tr. at 325]). There is no evidence that Burstein so advised Hilfiger. Rather, Burstein's advice to Hilfiger in the August 6, 1993 letter was the following: "At this point, we would not necessarily rule out your use and registration of this mark *subject to our usual disclaimers regarding the need to first obtain and review a full trademark search*." (Pl. Ex. 74) (emphasis in text).

The Court notes that plaintiff's counsel's Proposed Findings of Fact purport to quote this letter but omit the important words "and registration" after the word "sue". (*See* Plaintiff's Proposed Findings of Fact, September 9, 1996 at ¶28.) Since use and registration are both required to register a trademark, Burstein's use of this language is consistent with his testimony that a full search should be conducted for a stand-alone mark.

conducted before adopting a trademark, as evidenced by findings in *Corsearch*, 792 F.Supp. at 307, as well as on other published judicial opinions which showed that no court had required that companies perform a full trademark search before use and only two courts had previously required a registered mark search before use. *See International Star Class Yacht Racing Association v. Tommy Hilfiger*, 1997 WL 91082 at *3 (S.D.N.Y. March 4, 1997) (citing *Sands, Taylor & Wood. Co. v. Quaker Oats. Co.*, 978 F.2d 947 (7th Cir. 1992) *cert. denied*, 507 U.S. 1042 (1993) *aff'g in part* 1990 WL 251914 at *16 (N. D. Ill. Dec.20, 1990) (finding bad faith where defendant failed to conduct registered trademark search until days before airing of commercial and had knowledge trademark was in use); *see also Zazi Designs v. L'Oreal*, 979 F.2d 499, 504 (7th Cir. 1992) ("Firms need only search the register before embarking on development."); and *Hasbro. Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70 (2nd Cir. 1988)(upholding lower court finding that search limited to only registered marks was not bad faith).)

Moreover, the Court raised the findings of *Corsearch* at the hearing (Transcript of Hearing, "Hearing Tr." at 572) and invited counsel to comment on those conclusions (*id.*). Defendant in its brief on remand discussed *Corsearch* in support of its argument that its actions were in good faith (Defendant's Post-Trial Memorandum of Law, "Def. Post-Trial Mem." at 6). Plaintiff's argument on this motion that it had inadequate notice that the issue of what was accepted industry practice was relevant to the Court's consideration of whether Hilfiger acted in bad faith is unavailing. Plaintiff did not object when the Court discussed *Corsearch* at the hearing, and it presented no case law which either disputed the findings of *Corsearch* and the other cases cited by the Court or which set forth any alternative understanding of acceptable industry practice. *Cf. United States v. Vasquez-Guerrero*, 554 F.2d at 919 n. 1.

Accordingly, plaintiff's motion for reconsideration is denied.

II. Defendant's Motion

Defendant moves for reargument and to alter and/or amend the Court's March 4, 1997 Opinion on the grounds that (1) the Court overlooked evidence in the record of Hilfiger's costs and the apportionment of Hilfiger's profits; and (2) the testimony of Gursky should have been admitted into evidence. The standard for a motion for reconsideration or reargument is strict, and it "is not a mechanism to allow parties to relitigate contentions and arguments already briefed, considered and decided." *Yankelevitz v. Cornell University*, 1997 WL 115651 at *2 (S.D.N.Y.1997).

The Court did not overlook evidence in the record of Hilfiger's costs as defendant did not introduce any such evidence into the record. Plaintiff's Exhibit 90 was offered for the purpose of showing Hilfiger's sales and profits and not its costs. No evidence of those costs was submitted by defendant at the hearing, and no reference to those costs was made by defendant in its post- hearing memorandum.

As the Court pointed out in its March 4, 1997 Opinion, Gursky's testimony at the post-trial hearing is not admitted because it went to the issue of bad faith which defendant had had ample notice would be an issue prior to trial. Thus, defendant could have presented evidence on this issue at trial; by not doing so, it lost its chance. *See International Star Class Yacht Racing Association v. Tommy Hilfiger*, 1997 WL 91082 at *1.

Defendant has presented no evidence or controlling decisions that this Court overlooked in its March 4, 1997 Opinion so defendant's motion for reargument is denied.

III. The Parties' Proposed Findings of Fact

In its March 4, 1997 Opinion, the Court inadvertently did not review the parties' Proposed Findings of Fact on the Issue of Bad Faith which were based solely on the trial record and received September 9 and 10, 1996, some weeks prior to the October 24, 1996 Hearing. The parties are entitled to rulings on these proposed findings. Accordingly, the following Findings of Fact are accepted:

1. In its Nantucket line of clothing, Hilfiger used the phrase "Star Class" as part of a composite logo, immediately in conjunction with both the registered Hilfiger name trademark (*i.e.*, TOMMY HILFIGER) and a variant of the registered Hilfiger red, white and blue flag design trademark. Both the Hilfiger name mark and the Hilfiger design mark were larger and more prominent than the phrase "Star Class" (Def. Exh. T-40).

2. The Hilfiger trademark is one of the two leading apparel trademarks in the United States (Leeds, Transcript of Trial, "Trial Tr." at 287).

3. Kathleen G. Luparello ("Luparello"), an assistant to the Chief Executive Officer of Hilfiger and Hilfiger's director of corporate services, was not a member of its design department (Luparello Dep., Trial Tr. at 350).

4. Luparello's responsibilities include interfacing with Hilfiger's attorneys on use and protection of Hilfiger's trademarks (*id.*).

5. Luparello transmitted to Hilfiger's attorneys Hilfiger's request that a trademark search be done on "Star Class" (*id.*, at 352).

6. In 1993, Neil Burstein was of counsel to the law firm of Gursky & Blau, attorneys for defendant (Burstein, Trial Tr. at 307).

7. In or about August 1993, Burstein received Hilfiger's request to perform a trademark search on the words "Star Class" (*id.*).

8. Burstein did not know how Hilfiger intended to use the term "Star Class" (*id.* at 322).

9. Burstein was not informed by anyone at Hilfiger prior to the commencement of the litigation that Hilfiger intended to market clothing with "Star Class" as containing "authentic details taken from the sport of competitive sailing" (*id.* at 329).

10. Burstein chose to have a Westlaw trademark screening search performed for federal trademark registrations and pending applications (*id.* at 307, 309, 335; P1. Exh. 72, 73).

11. Burstein did two such Westlaw trademark screening searches, one limited to goods in Class 25, clothing, and another for goods and services in all classes (Burstein, Trial Tr. at 324-26; Exh. 72, 73).

12. Burstein concluded from the aforementioned trademark screening searches that (a) there were no registrations or pending applications covering the phrase "Star Class," (b) there were many third-party usages of marks containing the words "Star" or "Class", and (c) any mark that used the words "Star" or "Class" would be a very weak mark (Burstein, Trial Tr. at 310).

14. The normal procedures followed by Burstein did not mandate that a trademark screening search be followed up with a full trademark search. A full trademark search would not be done if the term did not have trademark significance or would not be used as a stand-alone trademark (*id.*, at 336-37).

15. Burstein believed that he followed normal procedures with respect to Hilfiger's Nantucket line of clothing including the term "Star Class" (*id.* at 338).

16. After Hilfiger received a cease and desist letter from counsel for the plaintiff ("ISCYRA"), Burstein caused a full trademark search to be performed by Thomson & Thomson for "Star Class" for clothing and nautical sporting goods (*id.* at 310-312).

17. The Thomson & Thomson trademark search covered federal registrations, federal applications, state registrations, common law trademarks and trade names (*id.* at 311; P1. Exh. 79).

18. The Thomson & Thomson search report was more than 140 pages in length (P1. Exh. 79).

19. The Thomson & Thomson search report revealed extensive usages of the words "Star" and "Class", including instances where "Star Class" was used by third parties as a trademark (Burstein, Trial Tr. at 313-15; P1. Exh. 79).

20. No reference to ISCYRA's use of the phrase "Star Class" appeared in the federal registration portion of the Thomson & Thomson search report (P1. Exh. 79).

21. No reference to ISCYRA's use of the phrase "Star Class" appeared in the federal application portion of the Thomson & Thomson search report (*id.*).

22. No reference to ISCYRA's use of the phrase "Star Class" appeared in the state registration portion of the Thomson & Thomson search report (*id.*).

23. The only reference in the Thomson & Thomson search report to ISCYRA's use of the phrase "Star Class" was a listing under "company name" for "yacht club membership" (Burstein, Trial Tr. at 345; P1. Exh. 79).

24. ISCYRA is not and does not intend to be a commercial manufacturer or seller of clothing or apparel (Stip. Facts ¶ (IV)(0)).

25. Total sales by ISCYRA of merchandise bearing the phrase "Star Class" was $10,388 in 1992 (Stip. Facts ¶ (IV)(L)).

26. Total sales by ISCYRA of merchandise bearing the phrase "Star Class" was $11,783 in 1993. (*Id.*)

27. Burstein also caused a trademark search to be done on a design consisting of a five-pointed star (Burstein, Trial Tr. at 318).

28. Burstein testified that he believed that search revealed thousands of marks that had stars in them (*id.*).

29. If, at the time he performed the Westlaw trademark screening search, Burstein had known about ISCYRA's use of the term "Star Class" and a five-pointed star what he knew at the time of the trial, his legal conclusion would have been that ISCYRA's use of the words "Star Class" and/or a five-pointed star had no trademark significance (*id.*, at 339-40).

30. Assuming that prior to receiving ISCYRA's cease and desist letter, Burstein had known of (a) ISCYRA's existence and its use of "Star Class" as it appears in the Thomson & Thomson search report, (b) Hilfiger's intention to use "Star Class" on garments in the Nantucket line and Hilfiger's intention to advertise the Nantucket line as containing "authentic details taken from the sport of competitive sailing," and (c) had had an example of the use of that phrase, Burstein would not necessarily have precluded Hilfiger from using "star class" in connection with the Hilfiger mark (*id.* at 343-45).

31. Luparello read the letter from Burstein marked as Plaintiff's Exhibit 74 (*id.* at 354).

32. Burstein's letter stated the following:

> The screening search for the mark STAR CLASS did not reveal any identical federal trademark registrations or applications in class 25 which would bar your proposed use of this mark. At this point, we would not necessarily rule out your use and registration of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search. Also to be considered is that STAR CLASS would be a rather weak trademark. This is because the words "STAR" and "CLASS" are non-distinctive terms used extensively in other fields by third parties (Pl. Exh. 74) (emphasis in text).

33. Luparello understood the phrase "our usual disclaimers" in Burstein's letter to mean "attorney paranoia," *i.e.*, "overcautiousness" (Luparello Dep., Trial Tr. at 354).

34. Luparello did not know the differences between a "trademark screening search" and a "full trademark search" (*id.*, at 355-56).

35. Luparello could not recall Burstein or his firm ever sending her a trademark search report that was in a format similar to the full Thomson & Thomson trademark search report for "Star Class" in response to a request by her for a trademark search (*id.* at 357).

36. Luparello could not recall ever having asked any law firm or lawyer to do "a more in-depth search than a usual trademark search" (id. at 358).

37. ISCYRA commenced the present action by a complaint served on defendant on April 14, 1994 (Civil Docket Sheet No. 5).

38. $2,334,892.20 worth of sales of clothes in Hilfiger's Nantucket line using the phrase "Star Class" were made before May 1994, approximately two weeks after ISCYRA commenced its lawsuit against Hilfiger (Exh. to Plaintiffs' Post-Trial Brief).

39. Only $818,492.85 worth of sales of clothes in Hilfiger's Nantucket line using the phrase "Star Class" were made after May 1994 (Exh. to Plaintiffs' Post-Trial Brief).

40. ISCYRA never requested that Hilfiger recall clothing using the term "Star Class" or sought judicial relief to that effect (Complaint; Order to Show Cause entered April 14, 1994).

Conclusion

For the reasons stated above, both parties' motions are denied, and this case is hereby closed.

IT IS SO ORDERED.

Dated: New York, New York
June 3, 1997

/s/ ROBERT P. PATTERSON, JR.
Robert P. Patterson, Jr.
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

94 Civ. 2663 (RPP)

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff,

—against—

TOMMY HILFIGER U.S.A., INC.,

Defendant.

APPEARANCES

Counsel for Plaintiff:

ROSS & HARDIES
Park Avenue Tower
65 East 55th Street
New York, New York 1022-3219
By: J. Joseph Bainton
John G. McCarthy
Chike I. Chukwulozie
Tel: (212) 421-5555
Fax: (212) 421-5682

Counsel for Defendant:

COWAN, LIEBOWITZ & LATMAN, P.C.
1133 Avenue of the Americas
New York, New York 100386-6799
By: Louis S. Ederer
Joseph H. Lessem
Tel: (212) 790-9200
Fax: (212) 790-9300

OPINION AND ORDER

ROBERT P. PATTERSON, JR., U.S.D.J.

On April 4, 1996 the Second Circuit affirmed in part, vacated in part, and remanded the judgment this Court entered on May 19, 1995. The Second Circuit found that the District Court's conclusion that there was no evidence of bad faith or wilful infringement in defendant Tommy Hilfiger, U.S.A., Inc.'s ("Hilfiger") use of the "Star Class" marks was based on two erroneous factual findings: (1) that the trademark search that defendant undertook was of both federal and state marks, when in fact it was of federal marks only, *see International Star Class Yacht Racing Association v. Hilfiger*, 80 F.3d 749, 752 (2d Cir. 1996); and, (2) that although Hilfiger intentionally copied plaintiff International Star Class Yacht Racing Association's ("ISCYRA") "Star Class" mark, it did not intend to copy a trademark owned by another. *Id.* at 753. The Second Circuit found this to be clearly erroneous given Hilfiger's minimal efforts to ascertain whether "Star Class" was a trademark. *Id.*

The Second Circuit also found that the District Court's analysis of Hilfiger's bad faith was incomplete, as the District Court did not address Hilfiger's failure to conduct a

full trademark search on Star Class "in direct contravention of the advice of its attorneys," *id.* at 754, and did not take into consideration Hilfiger's continued sale of allegedly infringing merchandise after initiation of this suit. *Id.*

On remand, the defendant moved to present additional evidence on the issue of its alleged bad faith and the amount of damages to be imposed, based on the Second Circuit's statement that after plaintiff instituted this action Hilfiger continued to utilize plaintiff's mark on its apparel, "racking up over $3 million in sales". *Id.*

The District Court granted defendant's motion and allowed the presentation of additional evidence on October 24, 1996. The evidence consisted of the testimony of Steven R. Gursky ("Gursky"), counsel to defendant, whose testimony was designed to rebut the Second Circuit's statement that defendant ignored the advice of his firm in its use of the "Star Class" mark. Also, a witness from Hilfiger's controllers' office presented records showing defendant shipped only $818,492.85 worth of goods bearing the words "Star Class" after the commencement of the action (Transcript of October 24, 1996 Hearing, "Hearing Tr." at 557-60), not the "over $3 million in sales" stated by the Circuit Court.

The Court rejects *in toto* the testimony of Gursky at the October 24, 1996 hearing. Defense counsel had adequate notice at trial of the plaintiff's claim of bad faith and made a record at trial as to the advice defendant received from its counsel on the use of "Star Class". Contrary to defendant's contention in its Post-Trial Memorandum of Law on Remand ("Post-Trial Mem." at 2-3 n. 1) requesting the evidentiary hearing, prior to trial the plaintiff did raise the issue of the defendant's bad faith, albeit in a less direct fashion than suggested by the Second Circuit. The plaintiff's complaint filed on April 13, 1994 charged a violation of the Lanham Act, which should have alerted defense counsel to the probability of a claim of bad faith, a factor considered under Lanham Act analysis. *See Paddington*

Corp. v. Attiki Importers & Distributors, Inc., 996 F.2d 577, 584 (2d Cir. 1993). Also, in its Memorandum in Support of Its Motion For a Preliminary Injunction ("Mem. in Supp. of Prelim. Inj.") filed with the complaint, in sections entitled "Defendant's Bad Faith" (Mem. in Supp. of Prelim. Inj. at 16) and "Predatory Intent" (*Id.* at 21), as well as in its Memorandum Opposing Summary Judgment, plaintiff disputed defendant's claim of no evidence of intentional copying. Similarly plaintiff leveled charges in the Pre-Trial Order of "wilful and deliberate" copying and "deception", and in its Proposed Findings of Fact and Conclusions of Law, plaintiff charged Hilfiger acted with predatory intent. All of these statements should have put defendant's counsel on notice that at trial plaintiff would be charging bad faith. The fact that defendant's counsel did not realize at trial that plaintiff was offering evidence which could show bad faith is irrelevant. Defendant's counsel had an opportunity to counter such claims with proof from the defendant's executives as to their state of mind in utilizing the mark "Star Class" and chose not to do so, but to rely instead on counter-designations in the deposition testimony of defendant's director of design Michael Sondag ("Sondag")[1] to the effect that he did not know that the Star Class existed as a class of racing yachts. (Transcript of Trial of January 9, 10, 1995, "Trial Tr." at 233-34.) The defense also called Neil Burstein ("Burstein"), of counsel on intellectual property matters to the law firm representing defendant and an adviser to defendant in this matter, to show that the defendant had proceeded to use "Star Class" only after its attorneys had conducted two trademark screening searches. The fact that defendant employed counsel with insufficient trial experience is no excuse for its failure to call additional witnesses.

---

[1] Sondag reported directly to Tommy Hilfiger. (Trial Tr. at 227.)

Accordingly, the evidence presented at the trial is the sole basis on which plaintiff's bad faith claim should be evaluated, and only the evidence at trial (not the evidence at the October 24, 1996 hearing) will be reconsidered in light of the Second Circuit's opinion.

Discussion

In its Findings of Fact and Conclusions of Law, this Court did commit a clear mistake in finding that a trademark search of federal and state registrations had been conducted by the defendant, as opposed to just a federal trademark search.[2] The Court's recollection of the nature of the "knock-out" trademark search conducted for the defendant was clearly incorrect, but this error is not one of any moment, as a state trademark search would not have revealed any trademark of plaintiff's (Plaintiff's Exhibit, "Pl. Ex." 79),[3] and so this error by the Court does not bear on the issue of defendant's bad faith.

The Second Circuit's suggestion that, in light of Hilfiger's minimal efforts to ascertain whether "Star Class" was in fact a trademark, this Court erred in finding Hilfiger guilty only of simple copying and not intent to copy a mark, does not take into account the change in industry practice in trademark searches that took place in the late 1980s and early 1990s of which the District Court was aware.

---

[2] Two trademark search companies, Thomson & Thomson, through Dialog Information Services, Inc., and Trademark Research Corporation, did offer both federal and state trademark screening searches for all fifty states at the time. *See Corsearch v. Thomson & Thomson*, 792 F.Supp. 305, 307 (S.D.N.Y. 1992) (discussed *infra*).

[3] A full search performed after the initiation of this lawsuit by Thomson & Thomson revealed only common law trademark use by plaintiff. (Transcript of January 9, 10, 1995 Trial, "Trial Tr." at 317; Pl. Ex. 79.)

Corsearch v. Thomson & Thomson, 792 F.Supp. 305 (S.D.N.Y. 1992), an antitrust case, was tried before this Judge over a period of about four weeks in late 1991. In that case it was uncontested that after the fall of 1989 industry practice in trademark searches underwent a significant metamorphosis following the general release by the federal patent and trademark office of its computerized data base of all federally registered marks and pending applications. *See Corsearch v. Thomson & Thomson*, 792 F.Supp. at 308, 323- 25. Thereafter, several firms, including Corsearch, Mead Data Central and Dun & Bradstreet, entered the trademark screening search field in competition with Thomson & Thomson which had held "monopoly power in the 'comprehensive trademark search market' " and had had an exclusive right, as had Trademark Research Corporation, to license the computerized version of the federal trademark search which they helped develop. *Id.* at 308. Testimony in *Corsearch* revealed that a number of "trademark search firms" now offer only screening searches of the federal data base, *id.* at 323, and that such firms are widely used by in-house and trademark counsel to conduct "knock-out" or "rule out" searches of names and symbols, and comprehensive or "more sophisticated searches are reserved for marks which have passed knock out tests and are being seriously considered for trademark registration." *Id.* at 311 (quoting Affirmation of Dr. Marion Stewart ¶¶ 21-22).

Indeed, industry statistics demonstrated that a multitude of federal trademark applications are regularly filed without a full search being conducted.[4] *Id.* at 307. It was thus

---

[4] As the *Corsearch* opinion stated:

> [T]housands of federal trademark applications are filed each year without ordering a full search from any trademark information service . . . Corsearch and [Thomson & Thomson] combined performed only approximately 60,000 comprehensive searches in 1990, a substantial number of which did

common practice for businesses to use trademarks and apply for federal registration without conducting a full trademark search and to rely instead on computerized screening searches, or "knock-out" searches, comprised only of federal trademarks and pending applications, before such use and registration. *Id.* at 307.

Indeed, the Court has been unable to find any case prior to the Second Circuit decision which has held that a party in Hilfiger's position had a duty to conduct a full search of prior uses of a trademark before use, and has only found two explicitly requiring the search for existing registered marks. *See Sands, Taylor & Wood. Co. v. Quaker Oats, Co.*, 978 F.2d 947 (7th Cir. 1992) *cert. denied*, 507 U.S. 1042 (1993) (*aff'g* 1990 WL 251914 at * 20 (N. D. Ill. Dec.20, 1990)); *see also Zazu Designs v. L'Oreal*, 979 F.2d 499, 504 (7th Cir. 1992) ("Firms need only search the register before embarking on development."); *Hasbro, Inc. v. Lanard Toys, Ltd.*, 858 F.2d 70 (2nd Cir. 1988) (upholding lower court finding that search limited to only registered marks was not bad faith). Court opinions such as these, although principally dicta, evidently were relied upon in business and by trademark counsel, especially by those anxious not to maximize their costs with full searches and anxious not to delay production while a comprehensive search was conducted.

In light of the common practice in the industry as revealed in *Corsearch* and supported by the case law, defendant's efforts to ascertain whether "Star Class" was a mark of another do not appear to be inadequate. Moreover, defendant's conduct does not appear in any other way to evince an intent to copy the mark of another. There is no question Hilfiger advertised the Nantucket Line as "com-

---

> not result in trademark applications. 127,000 trademark applications were filed with the [United States Patent and Trademark Office] in 1990.

Corsearch, 792 F.Supp. at 307.

bining classic nautical sportswear with a variety of authentic details taken from the sport of competitive sailing." (Trial Tr. at 34, 229.) There was no evidence, however, that Hilfiger had reason to believe that the designation "Star Class" was anything other than a certain type of sailboat used in racing. Hilfiger's designer admitted examining *Stars and Stripes: The Official Record*, a coffee table book published by Dennis Connor Sports, a recognized authority on sailboat racing (Pl. Ex. 88; Trial Tr. at 230), which referred to Star Class racing and Star Class boats but gave no indication of the affiliation of that phrase with ISCYRA, and treated the phrase generically on many of its pages. *See International Star Class Yacht Racing Association v. Tommy Hilfiger U.S.A., Inc.*, 1995 WL 241875 at * 7 (S.D.N.Y. April 26, 1995). Designer Sondag stated that he had not determined that Star Class as a class of sailing yachts existed.[5] (Trial Tr. at 233-34.) There was no showing that the defendant knew ISCYRA existed. Even Burstein, who was a member of a yacht club, testified he had no such knowledge (*Id.* at 330, 339), and plaintiff offered no evidence anyone else at Hilfiger had such knowledge.

Counsel for plaintiff's reliance on the testimony of designer Sondag (a layperson) to the effect that he copied another logo, to show predatory intent to copy the mark of another, is almost laughable. (*Id.* at 239 (quoting Sondag

---

[5] In view of Sondag's testimony, the Court does not find that defendant's failure to call Tommy Hilfiger, Sondag's immediate supervisor, warrants drawing an adverse inference that Mr. Hilfiger's testimony would have been unfavorable to defendant. There was no showing that Mr. Hilfiger's testimony would not "merely have repeated other testimony and evidence already before" the Court through Sondag's deposition, and so an adverse inference would be inappropriate. *See* 3 Leonard B. Sand *et al.*, *Modern Federal Jury Instructions* ¶75.01 (Instruction 75-3) (1996). Counsel advised that all of defendant's executives were unavailable as it was "market week" in the industry. (Trial Tr. at 223.)

Deposition).) The North Sails logo discussed in the designer's testimony consists of a round circle with a slash mark separating the letters "N" and "S". (*Id.* at 35.) Use of a round circle with a slash mark separating letters or distinctive symbols is a very common trademark design. Hilfiger used the round circle with a double slash mark to enclose and separate the letters "T" and "H" (*Id.* at 35-37), and the double slash mark incorporated the word "HILFIGER".[6] (*See* Def. Ex. 40 (attached as Ex. A).) The letters "N" and "S" do not resemble "T" and "H", and the mark may not be considered a "copy" as a matter of law, despite the witness's use of the vernacular. There is no evidence that this action of Hilfiger's evinced an intent to copy the mark of another.

As the Second Circuit stated, the fact that Hilfiger went ahead with the use of the phrase "Star Class" after receiving defendant's counsel's letter of August 6, 1993 to Hilfiger trademark liaison Kathleen Luparello ("Luparello") must be considered in evaluating Hilfiger's bad faith. (Letter of Gursky & Blau to Luparello of August 6, 1993, Pl. Ex. 74.) Prior to sending the letter, defendant's counsel had performed a trademark screening search by computer of federal trademark registrations and pending applications for the trade names "Star Class" and "Haberdasher". (Pl. Ex. 72.)[7] It advised its client in the letter of August 6, 1993 against the use of the trade name "Haberdasher" because of prior use. (Pl. Ex. 74.) With respect to "Star Class" it advised:

---

[6] The numbers "0" and "42" were added within the circle, the latter designating Mr. Hilfiger's age. (Trial Tr. at 240 (quoting Sondag Deposition).)

[7] In fact, two screening searches were performed on Westlaw on August 3, 1993. Plaintiff's Exhibit 72 covered all federal registered and pending applications for "Star" and "Class" (Trial Tr. at 307-8), and Plaintiff's Exhibit 73 covered "Star Class" for International Class 25 (clothing) and U.S. Class 39 (clothing). (Trial Tr. at 324-36.)

> The screening search for the mark STAR CLASS did not reveal any identical federal trademark registrations or applications in class 25 which would bar your proposed use of this mark. At this point, we would not necessarily rule out your use and registration of this mark subject to our usual disclaimers regarding the need to first obtain and review a full trademark search. Also to be considered is the fact that STAR CLASS would be a rather weak trademark. This is because the words "STAR" and "CLASS" are non-distinctive terms used extensively in other fields by third parties.
>
> Please do not hesitate to call me directly if you have any questions about the screening search. If you want to proceed with a full search for STAR CLASS, please advise.

(Pl. Ex. 74) (emphasis in text).

Defendant's reaction to this letter must be considered in light of the growing use of knock-out searches and the greatly reduced use of full searches by businesses and law firms after 1989. *See, e.g., Corsearch v. Thomson & Thomson*, 732 F.Supp. at 307, 321 (Thomson & Thomson's revenues from full searches dropped from ninety-five percent to sixty percent of total revenues between 1983 and 1991). In light of this custom and practice in the trademark search field, the underlined section in the letter need not be interpreted as advice to conduct a comprehensive trademark search before any use of "Star Class" but more as a "cover your backside" lawyer's disclaimer of responsibility, intended to protect the lawyer in the event of adverse consequences from the adoption of the mark, rather than to advise the client to conduct a full search before using and registering[8] "Star Class" as a trademark. Indeed,

---

[8] In order for rights to be perfected in a registered trademark, both use and registration must be shown. *See* Anne C. Hiaring, "Prin-

Luparello, in the pre-trial deposition read into the record by plaintiff's attorney, testified she regarded the disclaimer language as "attorney paranoia". (Trial Tr. at 354 (quoting Luparello Deposition).) At trial, Burstein, the author of the letter, explained the disclaimer as follows during cross-examination:

> Q: . . . Would you please tell me . . . what the "usual disclaimers" regarding a need to first obtain and review a full trademark search were?
>
> A: Well, generally before a mark is used and registered as a stand alone mark, we recommend that a full trademark search be conducted. It's pretty much the gist of the disclaimers.

(Trial Tr. at 327.)

Here, Star Class was not used as a "stand alone mark" by Hilfiger to identify the source of goods or to identify a line of goods, nor was it intended to be "used and registered". The T/H circle symbol, which contains the name "HILFIGER" in good-sized type, was used for decoration, evidently to give the goods "panache". Another decorative symbol used in a similar manner was a decorated crest bearing the word "NANTUCKET", under which were two small flags, one of which contained "T ★ H". The decoration which gave rise to this suit was a yacht club-type pennant bearing the initials "TH" and the number 42 (Hilfiger's age), capped by the words "TOMMY HILFIGER" in large letters and underlined by the words "STAR ★ CLASS" in slightly smaller letters. On the left side of the pennant was the notation "EST.", and on the right, "MCMLXXXV". The most logical interpretation of this decoration was that the product was from Hilfiger's

---

ciples of Trademark Law" in *Understanding Basic Trademark Law* 1996, at 9, 16-17 (PLI Pat., Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. G-451, 1996).

best class of products. The name "Star Class" was not registered or attempted to be registered by Hilfiger, and the words were not for use to designate a class of goods. The line of goods was called the "Nantucket Line", and Hilfiger prominently displayed its stand-alone mark, the name "Tommy Hilfiger", in large letters on the outside surface of its goods in addition to labeling them inside the collar. If the mark was not intended to be "used and registered as a stand alone mark", then, according to Burstein's testimony, there was no reason for Hilfiger to order its law firm to undertake a full search.

Burstein's trial testimony supports the conclusion that his letter was not intended to advise Hilfiger to have a full search done before using "Star Class" unless it was to be used as a "stand alone mark". While Burstein's testimony as to the meaning of his firm's disclaimer represents more conservative advice than industry practice in late 1991 and, inferentially, in 1993, since full searches were no longer ordered as a matter of course even when a mark was intended to be used and registered, that advice is not inconsistent with industry practice when the mark was not intended to be used and registered and only used for decoration. Thus, since Hilfiger was only using "Star Class" as a decoration and not as a trademark, its subsequent use of "Star Class" without ordering a full search is not inconsistent with its attorney's advice and was consistent with a common industry practice.

With respect to the issue of whether defendant's bad faith is evidenced by its continued sale of the clothes that bore the words "Star Class" after the filing of this lawsuit, the continued sale is consistent with the defendant's attorneys' opinion in the letter of August 6, 1993 (Pl. Ex. 74) that plaintiff's non-registered mark was "rather weak". Indeed, the Thomson & Thomson search had revealed that federal registered marks for "Star Class" existed for use on paper goods and printed matter, as well as for interiors, and

that an application for "Star Classics" was then pending covering toys and sporting goods (Trial Tr. at 314), and "Star Class" was registered for advertising and business services in Pennsylvania. (Pl. Ex. 79.) As Burstein testified, the comprehensive trademark search had revealed widespread use of "Star" and "Class" by others and evidenced no use of "Star Class" by plaintiff with respect to apparel but only with respect to yacht club membership. (*Id.* at 317.) Plaintiff did not undertake a consumer survey to show that ISCYRA or its mark were widely known to persons interested in purchasing sportswear with a nautical ambiance. *See Hilfiger I* 1995 WL 241875 at * 8. No evidence showed that the defendant acted with the aim of securing customers who were customers or members of plaintiff's organization,[9] or that the conduct of defendant was an attempt to engage in deceptive commercial practices. *See id.* at *11. As the Court's Conclusions of Law reveal, the issue of whether the term "Star Class" was generic or was descriptive and had acquired secondary meaning was a close question. *See id.* at *4-*9. The Court does not find bad faith based on defendant's continued distribution of already manufactured goods following the receipt of plaintiff's notice of trademark claim letter and the initiation of this action. There is no evidence or suggestion that defendant's attorneys suggested that such distribution and sale be discontinued.

Accordingly, the Court finds the plaintiff did not prove defendant's bad faith in its use of "Star Class" on its garments offered for sale prior to this Court's decision, and denies plaintiff's request for an accounting of Hilfiger's

---

[9] Defense witness Allan Zwerner, Senior Vice President of Burdine's, a Miami department store chain, testified that although Burdine's purchased $24.5 million worth of defendant's products in 1994 for 40 retail stores, it never received any inquiries as to possible sponsorship or affiliation with plaintiff. (Trial Tr. at 254-66); *see Hilfiger*, 1995 WL 241875 at * 12.

profits. Plaintiff's request for an award of attorneys' fees is denied as well.[10]

Since the Circuit may not agree with this Court's finding that plaintiff offered insufficient evidence of defendant's bad faith, the Court will make findings on the evidence of damages. As shown by Defendant's Exhibit 45 (Hearing Tr. at 438-45), the defendant shipped only $818,419.85 worth of goods bearing the phrase "Star Class" after March 31, 1994, two weeks after plaintiff's cease and desist letter dated March 16, 1994 (Plaintiff's Revised Post-Trial Brief at 23) and two weeks before the filing of this lawsuit. Defendant offered no evidence of its costs attributable to these sales. Accordingly, no deduction will be made for such costs. *See* 15 U.S.C. § 1117; *see also Louis Vuitton S.A. v. Spencer Handbags Corp.*, 765 F.2d 966, 973 (2d Cir. 1985).

Conclusion

For the reasons stated above, plaintiff has not shown by a preponderance of the evidence that defendant acted in bad faith in using plaintiff's trademark. Accordingly, plaintiff's request for an accounting of defendant's profits or an order that defendant pay attorneys' fees is denied.

In any event, plaintiff has not shown damages of more than $818,419.85. No evidence has been offered as to the attorneys' fees incurred by plaintiff in this action, so no determination of fees can be made at this time.

IT IS SO ORDERED.

---

[10] No evidence has been offered as to the attorneys' fees plaintiff incurred in this action.

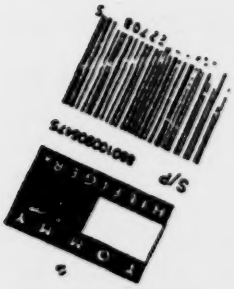
Dated: New York, New York
February 28, 1997

/s/ ROBERT P. PATTERSON, JR.
Robert P. Patterson, Jr.
U.S.D.J.

HILFIGER

T
42
H

TOMMY HILFIGER
EST.
TH
42
STAR
CLASS



NANTUCKET

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

94 Civ. 2663 (RPP)

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff,

—v.—

TOMMY HILFIGER U.S.A., INC.,

Defendant.

APPEARANCES

Counsel for Plaintiff:

ROSS & HARDIES
65 East 55th Street
New York, NY 10022-3219
BY: J. Joseph Bainton
Phone: 212-421-5555
Fax: 212-421-5682

Counsel for Defendant:

GURSKY & BLAU
21 East 40th Street
New York, NY 10016
BY: Steven B. Blau
Phone: 212-213-1234
Fax: 212-213-1245

OPINION AND ORDER

ROBERT P. PATTERSON, JR., U.S.D.J.

Plaintiff International Star Class Yacht Racing Association (the "Association") brings this action for damages and injunctive relief against Defendant Tommy Hilfiger U.S.A., Inc. ("Hilfiger") pursuant to Section 43(a) of the Lanham Act, 15 U.S.C. § 1125, Section 368-d (Injury to Business Reputation and Dilution) of the New York General Business Law, and common law trademark infringement and unfair competition.[1] Jurisdiction of the Court is invoked under the Lanham Act and 28 U.S.C. §§ 1332 and 1338(b) in that this action arises under an Act of Congress relating to trademarks, and Plaintiff is asserting state law claims in conjunction with said trademark infringement claims. Venue is pled in this district pursuant to 28 U.S.C. § 1391(b) and (c).

The Complaint charges common law trademark infringement and unfair competition, false designation of origin under Section 43(a) of the Lanham Act, and injury to business reputation and dilution of trademark under Section

---

[1] Plaintiff's motion to amend the Complaint to substitute Tommy Hilfiger U.S.A. for Tommy Hilfiger, Inc. was granted on the eve of trial.

368-d of the New York General Business Law, arising out of the Defendant's causing the words "Star Class" and the emblem "★" to be placed on its garments which Plaintiff asserts infringes on its emblem and non-registered trademark "Star Class." Trial was held on January 9 and 10, 1995.

This Opinion and Order constitutes the Findings of Fact and Conclusions of Law of the Court.

Background

Plaintiff is a not-for-profit corporation duly organized and existing in Illinois in 1922 and with its principal place of business in that state. Stip. Facts at ¶ (II)(A). Defendant is a corporation duly incorporated and existing in the state of New Jersey. Id. at ¶ (II)(B).

Prior to the formation of the Association, a man named George Corry, together with other yachting enthusiasts, designed a small yacht for racing in 1910 to improve on another class of small yachts called the "Bug," and named the new boat the "Star." Pl. Ex. 1 (C. Stanley Ogilvy, *A History of the Star Class* [Association 1991]) at 8. The first "Star" was built in Port Washington, New York, and the following year the first 22 Star yachts ordered to be built according to the new design were delivered to buyers. *Id.* The single design was important to racing enthusiasts since it sought to eliminate the equipment variable in racing and to increase the importance of a two-person crew's prowess in sailing races confined to boats of that class.

Since 1911 over 7700 Star boats have been built and almost 2000 are still in use throughout the world. The Association, whose stated object is "to promote, develop and govern Star Class racing throughout the world, under uniform rules," Stip. Facts at ¶ (IV)(B), has prospered accordingly. It is divided into twenty districts, each com-

prising a group of fleets in a given locality, and consisting of nine districts in North America, six in Europe, three in South America, and one each in Australia and Africa. These districts include 170 fleets with over 2000 members. In the United States there are almost 600 members. Tr. at 49 (Burgess); 203 (MacCausland).[2]

The Association does not manufacture, build or sell Star yachts, Stip. Facts at ¶¶ (IV)(G-H), but maintains a register of existing "Star Class" boats. In order to be registered, a builder must purchase from the Association an official set of plans and specifications and an identification number for the boat. Tr. at 86-105 (MacCausland). The builder's methods must be approved before construction begins. After construction the boat is measured and weighed by Association representatives, and the Association issues a measurement and weight certificate and a vessel number if its specifications are met. The boat's sails must also comply with strict measurement and construction requirements, and must display the vessel's number and the "Star Class" number and Emblem, a solid red five-point star (unless the owner's racing record warrants the display of a solid green, blue, silver or gold five- point star). "A yacht is eligible and considered to be in the Star Class only if it has been properly registered, conforms to measurement rules and is owned by a qualified active or life member recorded at the time as in good standing with the Association." Stip. Facts at ¶ (IV)(E) (Rules of the Association at ¶ 2.1). The Association supports itself by charges to boat manufacturers for the use of design plans, royalty fees for certifications, and by the dues of its members.

In addition to Star Class races conducted by each fleet, the Association holds annual championships and other regattas around the world. Before any championship race

---

[2] References to transcript pages of the trial held on January 9 and 10, 1995 will appear in this Opinion and Order as "Tr. at __."

the weight and measurements of each Star Class entry are checked. With the exception of 1976, Star Class yachts have raced in each Summer Olympic game since 1932. These races receive considerable media coverage. See Plaintiff's First Request to Take Judicial Notice, Volumes One and Two, Filed July 1, 1994.

The Association publication "Log of the Star Class," first published in 1922, contains records of all Star Class regattas, the Star Class constitution and by-laws, a set of Star Class racing rules and a register of the existing Star Class yachts. *See* Pl. Ex. 2 ("1993 Log of the Star Class"). The "Log of the Star Class" specifies the manner in which Association and fleet officers are to wear the appropriate solid five-point star on their caps and sleeves. *See* Opinion and Order dated November 30, 1994 at 3-4. The Association sells "Star Class" flags and decals to its members and advertises and sells through the annual publication of "Log of the Star Class," and the Association's monthly newsletter "Starlights," neckties, blazer patches and lapel pins featuring its emblem, the solid five-point red star, and the Association's initials I.S.C.Y.R.A. or a sail motif ("class merchandise"). Gross sales of class merchandise in 1992 was $10,388 at a cost of $5,076, and in 1993 sales were $11,783 at a cost of $6,271. Stip. Facts at ¶(IV)(L); Def. Ex. F at SC000114.

The Association also permits host yacht clubs holding regattas under the sanction of the Association to defray their costs by selling t-shirts, sweatshirts, caps, jackets and other related items which bear the marks in issue or variations thereof ("collateral items") as part of the promotion of the racing events. Stip. Facts at ¶¶(IV)(M-N). The Association does not intend to become a commercial manufacturer or seller of clothes or apparel items. Stip. Facts at ¶(IV)(O).

Hilfiger is an extremely successful designer and distributor of high quality men's clothing. Hilfiger's sales

exceeded 227 million dollars in the year ending March 31, 1994. Pl. Ex. 87 at 17. Hilfiger is among the two or three most successful promoters of lines of men's sports clothing today, ranking with Ralph Lauren. Tr. at 287 (Leeds). The Defendant's garments bear labels prominently displaying the name "Tommy Hilfiger." The colors of Defendant's clothing are predominantly red, white and blue.

The words "Star Class" were used in the first and only instance by Defendant in the Tommy Hilfiger (®) 1994 Spring Collection, particularly on garments in its Nantucket Line. Hilfiger marketed the Nantucket Line as "classic nautical sportswear" containing "authentic details taken from the sport of competitive sailing" and "elements and patterns taken directly from actual racing sails." Pl. Ex. 70. Plaintiff's Exhibit 88, a book about sailboat racing admittedly used by Defendant in research for its Nantucket line, contains pictures of yachts with sails bearing the registered trademark of North Sails, an approved sailmaker for Star Class yachts. *See* Tr. at 230 (Sondag Dep.). The North Sails trademark depicted is an "N" and an "S" contained in a circle. A mark similar to that of North Sails was placed on some of the Nantucket Line clothing, but bearing the letters "T" and "H" instead of "N" and "S," and not as a label of origin but in the form of a decoration on the sides of garments. The garments also were decorated with a diminutive "burgee" (a burgee is a yachting flag usually denoting a yacht club) bearing the initials "T.H.," and the words "Star ★ Class." *See* Def. Exs. 26, 28, 31, 32, 33. The words "Tommy Hilfiger (®)" were prominently placed on all garments.

The Defendant did not call any witnesses to the stand to deny that its use of the emblem, a five-point red star, was derived from observations of Plaintiff's mark, or that the term "Star Class" was not similarly utilized. Accordingly, the Court may draw the inference that Defendant inten-

tionally copied the unregistered marks in question. *See Lauratex Textile Corp. v. Allton Knitting Mills Inc.*, 517 F.Supp. 900, 904 (S.D.N.Y. 1981) (negative inference drawn that infringement of copyrighted design was willful because defendant's president failed to testify). There is no showing, however, that the marks were known by the Defendant or its agents as trademarks of the Association. The Defendant did present evidence that it had ordered a trademark search of "Star Class" by its outside attorneys; that the search conducted was for federal and state trademarks; that the search did not reveal Plaintiff's use of the mark; and that Defendant was advised by its attorneys in August 1993, prior to using the mark, that the search did not reveal that "Star Class" was a trademark and thus "proposed use of this mark . . . [is] not necessarily rule[d] out. . . ." Pl. Ex. 74 (letter regarding "Trademark Screening Searches" from Neil Burstein to Kathleen Luparello at Tommy Hilfiger U.S.A., Inc.). This is some evidence contradicting Plaintiff's claim that the Defendant intended to use a trademark belonging to another, namely Plaintiff.

Discussion

A. *LANHAM ACT CLAIM*

Section 43(a) of the Lanham Act proscribes "false designation of origin" in relation to goods or services. 15 U.S.C. § 1125(a).[3] A plaintiff must first demonstrate that

---

[3] Section 43(a)(1) of the Lanham Act prohibits any person from using

> in connection with any goods . . . or any container for goods, . . . any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false

its mark deserves protection under the Lanham Act in order to allege infringement. *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc.*, 973 F.2d 1033, 1039 (2d Cir. 1992). "[T]he general principles qualifying a mark for registration under § 2 of the Lanham Act are for the most part applicable in determining whether an unregistered mark is entitled to protection under § 43(a)." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S.Ct. 2753, 2757 (1992) (citations omitted).

The central issue in a trademark dispute is generally whether there is a likelihood of confusion between the two marks. *Lang v. Retirement Living Publishing Co., Inc.*, 949 F.2d 576, 579 (2d Cir. 1991). A trademark owner may receive judicial protection if "there is any likelihood that an appreciable number of ordinarily prudent purchasers are likely to be misled, or indeed simply confused, as to the source of the goods in question." *Id.* at 579-80 (quoting *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1130 (2d Cir. 1979).[4] Judge Friendly specified a nonexclusive list of factors to consider when examining the likelihood of confusion between two dissimilar products:

> or misleading description of fact, or false or misleading representation of fact, which—
>
> > (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods . . . by another person[.]

15 U.S.C. § 1125(a)(1).

[4] A non-profit corporation may also have unfair use of its name enjoined to protect related property rights. *See Cape May Yacht Club v. Cape May Yacht Club and Country Club*, 86 A. 972 (N.J. Ch. 1913), *Girls Clubs of America, Inc. v. Boys Clubs of America, Inc.*, 683 F.Supp. 50 (S.D.N.Y.), *aff'd mem.*, 859 F.2d 148 (2d Cir. 1988).

> [1] the strength of [the prior owner's] mark, [2] the degree of similarity between the two marks, [3] the likelihood that the prior owner will bridge the gap [between the two products], [4] actual confusion, [5] the reciprocal of defendant's good faith in adopting its own mark, [6] the quality of defendant's product, and [7] the sophistication of the buyers.

Polaroid Corp. v. Polarad Electronics Corp., 287 F.2d 492, 495 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961). No single factor is determinative, "[r]ather a court should focus on the ultimate question of whether consumers are likely to be confused." *Paddington Corp. v. Attiki Importers and Distributors, Inc.*, 996 F.2d 577, 584 (2d Cir. 1993) (citation omitted). The *Polaroid* factors will be examined to evaluate the likelihood of confusion between the parties' marks.

1. *Strength of Plaintiff's Mark*

The first step in determining whether an unregistered mark is entitled to protection is to categorize the strength of the mark according to the nature of the term itself. "Marks are often classified in categories of generally increasing distinctiveness; following the classic formulation set out by Judge Friendly, they may be (1) generic; (2) descriptive; (3) suggestive; (4) arbitrary; or (5) fanciful." *Two Pesos*, 112 S.Ct. at 2757 (citing *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 [2d Cir. 1976]). Suggestive, arbitrary and fanciful marks are entitled to protection as inherently distinctive, while descriptive marks are eligible for protection only after acquiring distinctiveness referred to as "secondary meaning," and generic marks are ineligible for protection. *Id.*

Analysis of the distinctiveness of Plaintiff's marks is complicated by their use in a fashion similar to that of licensed trademarks or certification marks because they designate that boats built by various manufacturers meet

specifications set by the Association, and thus the usual test for secondary meaning which examines the link by consumers of goods to a specific source is not directly applicable. Secondary meaning is normally acquired when "the mark comes to identify not only the goods, but the source of those goods, even though the relevant consuming public might not know the name of the producer." *Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1221 (2d Cir. 1987); *see also Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786 (5th Cir. 1983) (secondary meaning arises when the mark comes "to be known by the public as specifically designating that product."). Plaintiff's mark may be analyzed as analogous to a certification mark, and "[a] certification mark is distinctive if prospective purchasers recognize the mark as an indication that a particular person, whether known or anonymous, has certified that the goods or services meet the standards established for authorized use of the mark." *Restatement Third, Unfair Competition* § 11, cmt. b (1995).[5] Widespread recognition of "Star Class" boats in media reports and their continuing popularity (albeit on a much smaller scale than Defendant's fame) more than 70 years after the original design indicate that prospective purchasers of "Star Class" boats do recognize the mark as an indication that the boats have been certified, even though prospective purchasers' knowledge of the Association or its role may be limited.

---

[5] Collective marks are similar to certification marks in many respects, and may be eligible for trademark protection even if unregistered. *See Opticians Ass'n of America v. Independent Opticians of America*, 920 F.2d 187, 193 n. 8 (3d Cir. 1990) ("[I]t is entirely possible for a collective trademark to legitimately function as a certification mark, or vice versa."); *Int'l Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912 (9th Cir. 1980) (no infringement of unregistered collective mark since consumers were not misled about origin, sponsorship or endorsement of defendant's jewelry), *cert. denied*, 452 U.S. 941 (1981).

Plaintiff argues that its marks are arbitrary and deserving of the highest level of trademark protection due to its continuing efforts to ensure the quality and standards of yachts identified by these marks. *See* Tr. at 86-105 (MacCausland). However, the word "class" is a generic term, and the "Star Class" mark is closer to a superlative designation of the boat since the word "star" adopted for the boat and its graphic symbol are commonly used to denote excellence. *See* Opinion and Order dated November 30, 1994 at 9-10; *McCarthy on Trademarks and Unfair Competition* § 15.02(2) (1993) (the hypothetical mark "Best" on milk would be a self-laudatory and descriptive term, but it could acquire distinctiveness by developing a secondary meaning to consumers). "[L]audatory words, such as 'best,' 'outstanding,' or 'supreme' cannot of their own force indicate the source or origin of the labelled goods. . . . 'Common expressions which can indicate nothing but high quality surely would not be indicative of origin to the purchasing public.' " *Supreme Wine Co. v. American Distilling Co.*, 310 F.2d 888, 889 (2d Cir. 1962) (citations omitted) ("supreme" lacked distinctiveness, originality and uniqueness, and required compelling proof of secondary meaning for trademark protection); *see also Murphy v. Provident Mutual Life Ins. Co. of Philadelphia*, 923 F.2d 923, 927 (2d Cir. 1990) ("Marks that are laudatory and that describe the alleged qualities or characteristics of a product or service are descriptive marks."), *cert. denied*, 502 U.S. 814 (1991); *In re Royal Viking Line A/S*, 216 U.S.P.Q 795 (TTAB 1982) (registration of the term "World Class" refused as a descriptive mark rather than one indicating origin).

Extensive third party use of a mark also weighs against a finding that the mark is strong. *Lang*, 949 F.2d at 581. A recent decision noted that 196 federally registered trademarks utilized a five pointed star symbol, and concluded that an inference of such a mark's strength "is somewhat

rebutted by the prevalence of similar five pointed star symbols used to decorate athletic clothing and footware." *Starter Corp. v. Eurostar Inc.*, 28 U.S.P.Q.2d 1844, 1846 (C.D. Cal. 1993) (sharing of star symbol and term was not sufficient to find confusing similarity where marks were visually dissimilar, evidence of actual confusion was weak, and defendant adopted the mark in good faith); *see also Sun Banks of Florida v. Sun Federal Savings & Loan*, 651 F.2d 311, 316-17 (5th Cir. 1981) (widespread use of term "sun" militated against finding of confusion); Pl. Ex. 79 (Trademark Research Report by Thomson & Thomson of the mark "Star Class"); Tr. at 313-17 (Burstein) (search revealed thousands of marks incorporating the term "star"). "[S]uch marks as a star or the sun in word or picture are of such long standing in the business world and have been used in so many lines of business that neither can be considered the exclusive mark of one manufacturer or tradesman so as to deny its use by others." 3 Callmann, *Law of Trademarks* § 82.1(1) at 765-66 (quoted in *Sun Banks*, 651 F.2d at 317). Extensive third-party use of "star" and its graphic symbol weakens the inherent distinctiveness of the mark and indicates that the mark's primary meaning is laudatory and therefore descriptive.

Defendant argues that Plaintiff's marks are generic and thus not entitled to protection under the Lanham Act. For unregistered marks, the burden of proving non-genericness is on the proponent of trademark rights where the opponent contends that the term was in common usage as a generic term before its alleged use as a trademark. *Murphy Door Bed Co., Inc. v. Interior Sleep Systems, Inc.*, 874 F.2d 95 (2d Cir. 1989). Defendant maintains that because Star yachts were produced for racing beginning in 1911, prior to the formation of the Association in 1922, the term "Star Class" had already become part of the public domain and thus a generic mark. Although Defendant's argument might have been effective in 1922, it is not the proper basis for

evaluating the distinctiveness of Plaintiff's mark today because by definition secondary meaning arises only after a mark is already in use, and the strength of marks and their secondary meaning may change over time.[6] *See* Section (A)(1)(a), *infra*. Plaintiff's evidence at trial showed that the Association has taken action to object to unauthorized use of the mark "Star Class" when used in connection with sailboats. Pl. Exs. 100-01. Efforts by the Plaintiff to maintain quality and control of the boat's specifications distinguish the mark "Star Class" from the Thistle mark, which was held to have "passed into the lexicon of the boating industry" for its failure to control third-party use of the designation. *See Thistle Class Association v. Douglas & McLeod, Inc.*, 198 U.S.P.Q. 504 (TTAB 1978); Tr. at 86-105 (MacCausland).

Defendant also contends that mention of "Star Class" without reference to pictures in Plaintiff's Exhibit 88 (*Stars and Stripes, The Official Record, America's Cup XXVIII* [Dennis Connor Sports, Inc.1992]), a publication by a recognized authority in sailboat racing, indicates generic use by using the term as "a common descriptive name for the product," thus estopping the Plaintiff from claiming that the mark is distinctive. Def. Post-Trial Mem. at 3-6; Pl. Ex. 88 at 61, 63, 69, 72, 95, 144, 147, 148; *see also Birtcher Electro Medical Systems, Inc. v. Beacon Laboratories, Inc.*, 738 F.Supp. 417, 420 (D. Colo. 1990) (plaintiff's use of mark as a noun indicated its generic-

---

[6] Defendant's argument is also undercut by availability of the common law certification mark which provides equitable rights in "a mark to certify . . . mode of manufacture, quality, accuracy or other characteristics of such goods or services," and may eventually arise from successful promotion of a mark. 15 U.S.C. § 1127; *see also Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distributors Pty. Ltd.*, 647 F.2d 200, 202 n. 1 (D.C.Cir. 1981) (Ginsburg, J.) (common law certification marks designated wine from a region in Germany) (citing *Florida v. Real Juices, Inc.*, 330 F.Supp. 428 [M.D.Fla.1971]).

ness). This book however was not published by the Plaintiff. Although newspaper and magazine use of a term in a generic sense is a strong indication of the general public's perception that the term is a generic name, *American Thermos Products Co. v. Aladdin Industries, Inc.*, 207 F.Supp. 9, 20 (D. Conn. 1962), *aff'd*, 321 F.2d 577 (2d Cir. 1963); *Loctite Corp. v. National Starch & Chemical Corp.*, 516 F.Supp. 190 (S.D.N.Y. 1981), "[i]t is the use and understanding of the term in the context of purchasing decisions, however, that determines the primary significance of a designation." *Restatement Third, Unfair Competition* § 15, cmt. c (1995).[7] The buyers of products in competition with those of Defendant are in the market for sports leisure wear, not sailboats, and no evidence of consumers' use of the term "Star Class" in the context of such purchasing decisions indicates that Plaintiff's marks are generic.

After considering these indicators of distinctiveness, the mark "Star Class" is found to be descriptive rather than suggestive, and secondary meaning must be established for Plaintiff's marks to be protected under trademark law.

a. *Secondary Meaning of "Star Class"*

Usually secondary meaning is acquired when " 'the mark comes to identify not only the goods, but the source of those goods,' even though the relevant consuming public might not know the name of the producer." *Centaur Com-*

---

[7] Dictionary definitions may also be an indication of genericness. *Murphy Door Bed Co.*, 874 F.2d at 101. *Webster's Third New International Dictionary* (Merriam-Webster 1986) defines "star" as:

> 10: one of a class of international one-design sharp-chined racing sloops that are Marconi rigged and approximately 22 feet 9 inches in overall length with a sail area of 281 square feet[.]

There is no mention of Plaintiff or its certification role.

munications, Ltd. v. A/S/M Communications, Inc., 830 F.2d 1217, 1221 (2d Cir. 1987) (citing *20th Century Wear, Inc. v. Sanmark-Stardust Inc.*, 815 F.2d 8, 10 [2d Cir. 1987]). However, since the Association does not produce any goods, and the "Star Class" marks function similarly to certification marks, the appropriate test is whether consumers of men's sportswear associate the Plaintiff's marks with the "mode of manufacture, quality, accuracy or other characteristics" that in sum comprise the "Star Class" boat's specifications as defined by the Association. *See* 15 U.S.C. § 1127; *see also* note 5, *supra*.

"[P]roof of secondary meaning entails vigorous evidentiary requirements" and the proponent bears the burden of showing that secondary meaning existed at the time of the alleged infringement. *20th Century Wear, Inc.*, 747 F.2d at 90 (citation omitted). Factors to be considered in determining whether secondary meaning exists for a mark include: (1) advertising expenditures; (2) consumer studies linking the mark to a source; (3) unsolicited media coverage of the product; (4) sales success; (5) attempts to plagiarize the mark; and (6) length and exclusivity of the mark's use. *Thompson Medical Co., Inc. v. Pfizer Inc.*, 753 F.2d 208, 217 (2d Cir. 1985); *see also Centaur Communications, Ltd.*, 830 F.2d at 1222.

"The plaintiff is not required to establish that *all* consumers relate the product to its producer; it need only show that a substantial segment of the relevant consumer group makes this connection." *Coach Leatherware Co., Inc. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991) (emphasis in original) (citing *Centaur Communications, Ltd.*, 830 F.2d at 1222). Defendant argues that the relevant group of consumers in this case consist of "all actual and prospective purchasers of defendant Tommy Hilfiger (®) products." Def. Post-Trial Mem. at 8. This is too broad a group. "In evaluating confusion in a trademark infringement case, it is important to remember that the courts are dealing with

confusion as to source, and that the only 'relevant population' is potential purchasers of the junior user's goods or services." *Hutchinson v. Essence Communications, Inc.*, 769 F.Supp. 541, 546 (S.D.N.Y. 1991) (citing *Lobo Enterprises, Inc. v. Tunnel, Inc.*, 693 F.Supp. 71, 77 [S.D.N.Y. 1988]) (Haight, J.) (relevant population in trademark case consisted of rap music fans who were "consumers of the junior user's services" since the junior user was a rap music performer); *cf. Boston Athletic Ass'n v. Sullivan*, 867 F.2d 22, 30-31 (1st Cir. 1989) (relevant population consisted of "the general public that is the market for shirts commemorating the Boston Marathon."). Here the Defendant's sales literature for the Nantucket Line described the clothing as "classic nautical sportswear with a variety of authentic details taken from the sport of competitive sailing. . . ." Pl. Ex. 70. Thus the segment of the population for whom the Defendant's sales strategy was designed to appeal—those clothing purchasers likely to be enticed by the nautical theme of Defendant's clothing—and not all actual and prospective clothing purchasers would appear to be the relevant population. Such persons might have some familiarity with the Plaintiff and be more prone to confusion regarding sponsorship or association between the marks. *See* Opinion and Order dated November 30, 1994 at 13. The composition of the relevant population of consumers at which Defendant aimed its advertising increases the likelihood of confusion among a significant segment of that population as to any association with or sponsorship of Defendant's clothing by Plaintiff.

(1) *Advertising Expenditures*

Secondary meaning for the "Star Class" marks is not supported by advertising expenditures by the Association.

(2) *Consumer Studies*

"[I]t is significant that [the Plaintiff] did not undertake a consumer survey, a failure which strongly suggests that a likelihood of confusion cannot be shown." *E.S. Originals Inc. v. Stride Rite Corp.*, 656 F.Supp. 484, 490 (S.D.N.Y. 1987) (Sprizzo, J.); *see also Reebok Int'l v. K-Mart Corp.*, 849 F.Supp. 252, 268-69 (S.D.N.Y. 1994). Indeed, Plaintiff has not offered evidence to show that the International Star Class Yacht Racing Association is widely known to persons interested in purchasing sportswear with a nautical ambiance. This factor weighs against secondary meaning for Plaintiff's marks.

(3) *Unsolicited Media Coverage*

Unsolicited media coverage of the "Star Class" marks is extensive (*see* Plaintiff's First Request to Take Judicial Notice, Volumes One and Two, filed on July 1, 1994) and is evidence of secondary meaning for this design of racing sailboats and to some extent the plaintiff in this action. *See also Int'l Kennel Club v. Mighty Star, Inc.*, 846 F.2d 1079, 1086 (7th Cir. 1988). These media reports indicate that secondary meaning exists for Plaintiff's marks based on the boat's specifications as set and controlled by the Association because prospective purchasers of racing sailboats appear to recognize the mark as an indication that a particular entity certified the boats as meeting standards established for its authorized use in competition. *See Restatement Third, Unfair Competition* § 11, cmt. b (1995).

(4) *Sales Success*

The sales success of this yacht based on recognition of the "Star Class" marks over more than 70 years and their continued importance in sailboat racing is evidence of secondary meaning of the mark as designating this design of racing sailboats.

(5) *Attempts to Plagiarize Plaintiff's Marks*

As discussed above, the Court infers that the alleged copying of Plaintiff's mark was an intentional act, but does not find that Defendant intended to copy a trademark owned by another. This "imitative intent can help support a finding of secondary meaning." *Bristol-Myers Squibb Co.*, 973 F.2d at 1042 (citing *Centaur Communications, Ltd.*, 830 F.2d at 1224); *Orion Pictures Co., Inc. v. Dell Publishing Co., Inc.*, 471 F.Supp. 392 (S.D.N.Y. 1979).

(6) *Length and Exclusivity of Use*

The "Star Class" marks have been used for more than seven decades, and exclusivity of their use on sailboats is indicated by the Association's letter to Catalina Yachts in January 1992 seeking to enforce its sole use of "Star" as a mark, thus supporting secondary meaning of the mark with respect to yachts. See Pl. Exs. 100-01. The connotation attributable to the "Star Class" marks due to efforts by the Association supports a finding of secondary meaning among sailboat racing enthusiasts.

Defendant argues that the limited sales of Class Merchandise by the Association of Class Merchandise diminishes any claims of consumer confusion related to the parties' marks. However, "the relatively small size of a senior user's advertising budget or sales volume will not diminish the strength of its valid mark, and the scope of protection will not be narrowed because of such evidence." *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1132 (2d Cir. 1979) (citation omitted).

The "Star Class" marks have acquired secondary meaning over the past 70 years as a result of work by the Association and its members to promote the boat's characteristics, and thus the marks are sufficiently distinctive to be eligible for trademark protection as designating these sailboats.

2. *Similarity between the Parties' Marks*

The second *Polaroid* factor evaluates the risk of confusion from similarity between the two marks. "[I]n assessing the similarity of two marks, it is the effect upon prospective purchasers that is important. . . . It is sufficient if the *impression* which the infringing product makes upon the consumer is such that [the consumer] is likely to believe the product is from the same source as the one [known] under the trade-mark." *McGregor-Doniger*, 599 F.2d at 1133-34 (citing Restatement of Torts § 728, Comment b at 591, and *Stix Products, Inc. v. United Merchants & Mfrs., Inc.*, 295 F.Supp. 479, 494 [S.D.N.Y. 1968]) (emphasis in original); *see also Restatement Third, Unfair Competition* § 21(a)(i) (1995) (overall impression created by conflicting designations is to be considered in comparing the degree of similarity between the marks). In *McGregor-Doniger* the district court was held to have properly considered the effect of differently presented marks, and the plaintiff's frequent and close association of its brand and manufacturing names reduced the likelihood of confusion with defendant's similar brand name also used as a source identification. 599 F.2d at 1134. Defendant argues that the prominent location of "Tommy Hilfiger" on the label should prevent confusion. Since this is not a case concerning competing goods, but rather an issue of false association, juxtaposition of "Tommy Hilfiger" does not avoid confusion regarding an endorsement by the Association. Although prominent placement of "Tommy Hilfiger" on the top of Defendant's label serves to distinguish the parties' marks, a consumer may nevertheless infer an agreement between Defendant and the Association to use the words "Star Class" in conjunction with a red star (the "Star Class Insignia") on the label. *See Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204- 5 (2d Cir. 1979) (public's belief that mark owner sponsored or approved its use satisfies the confusion

requirement); *Warner Bros., Inc. v. Gay Toys, Inc.*, 658 F.2d 76 (2d Cir. 1981) (likelihood of confusion existed as to source or sponsorship of toy car by television show); *Int'l Kennel Club v. Mighty Star, Inc.*, 846 F.2d 1079 (7th Cir. 1988) (presence of defendant's mark did not reduce likelihood of confusion as to sponsorship). The potential for confusion is fostered in this case by the nautical theme and sailing-type flag containing "TH" above the number 42 on Defendant's label.

3. *Will the Association "Bridge the Gap?"*

The current sales of related merchandise by the Association are at a minimal level, and the Association stipulated that it has no intent to market or license its marks for use on clothing sold to the general public. See Stip. Facts at ¶ (IV)(O). This factor does not support the likelihood of confusion between the parties' marks.

4. *Actual Confusion*

A showing of actual consumer confusion is strong proof of the fact of a likelihood of confusion between contested marks. "In order to be confused, a consumer need not believe that the owner of the mark actually produced the item and placed it on the market. The public's belief that the mark's owner sponsored or otherwise approved the use of the trademark satisfies the confusion requirement." *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204-5 (2d Cir. 1979) (citations omitted). The Fifth Circuit applied a test of confusion in circumstances similar to those in the instant case by asking whether "purchasers purchased [Defendant's merchandise] as a direct result of the presence of [Plaintiff's] emblem . . . believing that the [merchandise] was in any way endorsed, sponsored, approved or otherwise associated with [Plaintiff] . . . ." *Supreme Assembly, Order of Rainbow for Girls v.*

J.H. Jewelry Co., 676 F.2d 1079, 1084 (5th Cir. 1982) (testimony by organization member that she did not know or care about connection of jewelry to plaintiff organization failed to show consumer confusion); *cf. Boston Professional Hockey Assoc., Inc. v. Dallas Cap & Emblem Mfg.*, 510 F.2d 1004 (5th Cir.) (consumer knowledge of mark's source and origin in plaintiff meets confusion/mistake/deception requirement, confusion as to product source not required), *cert. denied*, 423 U.S. 868 (1975).[8]

A plaintiff normally has the burden of showing that many consumers are likely to be misled by the defendant's infringement. *Scarves by Vera, Inc. v. Todo Imports, Ltd. (Inc.)*, 544 F.2d 1167, 1175 (2d Cir. 1979). However, upon a proper showing of a defendant's deliberate conduct to engage in a deceptive commercial practice, the plaintiff need not introduce evidence of actual consumer confusion, and in such circumstances the burden shifts to the defendant to demonstrate an absence of consumer confusion. *Resource Developers, Inc. v. Statute of Liberty-Ellis Island Foundation, Inc.*, 926 F.2d 134, 140 (2d Cir. 1991). The Second Circuit has explained that:

> Where a second-comer acts in bad faith and intentionally copies a trademark or trade dress, a presumption arises that the copier has succeeded in causing confusion. In determining a defendant's intent, "actual or constructive knowledge" of the prior user's mark or dress may indicate bad faith. Where such prior knowledge is accompanied by similarities

---

[8] The Ninth Circuit observed "that there is some danger that the consumer may be more likely to infer endorsement or sponsorship when the consumer is a member of the group whose collective mark or trademark is being marketed. Accordingly, a court must closely examine the articles themselves, the defendant's merchandising practices, and any evidence that consumers have actually inferred a connection between the defendant's product and the trademark owner." *International Order of Job's Daughters*, 633 F.2d at 919.

> so strong that it seems plain that deliberate copying has occurred, we have upheld findings of bad faith.

Paddington Corp., 996 F.2d at 586-87 (citations omitted) (district court's finding was clearly erroneous that bad faith was absent in copying trade dress of competing brand of ouzo with the apparent aim of securing customers).

The "Star Class" name and insignia may have been obtained from Defendant's research, and thus expropriated to benefit the clothes' "nautical" design. However, the Defendant also had a trademark search conducted prior to its use of Plaintiff's unregistered trademark. Tr. at 307-10 (Burstein); Pl. Ex. 74. Furthermore, no evidence showed that Defendant acted with the aim of securing customers who were customers or members of Plaintiff's organization. Although Defendant intentionally sought "authentic details taken from the sport of competitive sailing" and researched "coffee-table books" including Plaintiff's Exhibit 88, Tr. at 230 (Sondag Dep.), Plaintiff has not made a proper showing of deliberate conduct by Defendant to engage in a deceptive commercial practice which would shift the burden to the Defendant to demonstrate the absence of consumer confusion. *See Resource Development*, 926 F.2d at 140 (plaintiff could not utilize this burden-shifting doctrine because it failed to establish intent to deceive); *Sweats Fashions, Inc. v. Pannill Knitting Co., Inc.*, 833 F.2d 1560, 1565 (Fed. Cir. 1987) ("[A]n inference of 'bad faith' requires something more than mere knowledge of a prior similar mark."); *cf. Gucci America, Inc. v. Action Actionwear, Inc.*, 759 F.Supp. 1060, 1065 (S.D.N.Y. 1991) ("Where the evidence 'shows or requires the inference that another's name was adopted deliberately with a view to obtain some advantage from the good will, good name, and good trade which another has built up . . . then the adopter has indicated that he expects confusion and resultant profit.' " [citation omitted]); *Cullman Ventures, Inc. v. Columbian Art Works, Inc.*, 717 F.Supp. 96, 130

(S.D.N.Y. 1989) (defendant "deliberately copied [plaintiff's] Trademarks with . . . the intent to improve their competitive position" and thus actual confusion was presumed).

The only evidence presented by Plaintiff at trial of actual or likely confusion was the testimony of Richard Burgess, a member of the Association who has never purchased any of Defendant's merchandise.[9] Tr. at 60 (Burgess). Burgess testified that after he saw "Star Class" on Hilfiger items for sale in a department store he inquired of the Association whether an agreement had been entered with Hilfiger regarding the use of Plaintiff's mark. Tr. at 28-32 (Burgess). The confusion Burgess described concerned the existence of a royalty agreement and is not directly relevant to the trademark infringement claim in this action which concerns purchase decisions in the mistaken belief that Plaintiff sponsored, approved or was otherwise associated with Defendant's merchandise. Tr. at 30 ("I asked . . . if the star class cut a deal for royalties of some sort with Tommy Hilfiger."), *see also Supreme Assembly*, 676 F.2d at 1084. In any event, "[g]iven significant volume of sales over time, isolated instances of actual confusion may be disregarded as *de minimis*." *Inc. Publishing Corp. v. Manhattan*

---

[9] The Second Circuit noted that a likelihood of confusion may rest upon "the probability that potential purchasers would be misled into an initial interest in [the defendant]. Such initial confusion works a sufficient trademark injury." *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254, 260 (2d Cir.1987) (citation omitted). However, Burgess was not shown to be even a potential purchaser of Defendant's merchandise. Tr. at 60 (Burgess testified that he had never purchased any Hilfiger merchandise). The remainder of Plaintiff's evidence about confusion between the marks consisted of the receipt of inquiries from several members as to whether Plaintiff had made a sponsorship deal with Defendant. Tr. at 125 (MacCausland). MacCausland also testified that Defendant's competitor Nautica (R) has made such a deal with the sponsors of the America's Cup. Tr. at 75, 214-15 (MacCausland); *see also* Pl.Ex 89 at 40; Pl.Ex. 106.

Magazine, Inc., 616 F.Supp. 370, 386 (S.D.N.Y. 1985) (emphasis in original, citation omitted) (court discounted as "de minimis" the testimony of a single witness with a possible bias who did not purchase the defendant's magazine but described his initial confusion after seeing it displayed), *aff'd* mem., 788 F.2d 3 (2d Cir. 1986). Defendant called Allan Zwerner, Senior Vice President of Burdines, who purchased $24.5 million worth of Defendant's products in 1994 for 40 retail stores, and testified that he never received any reports of confusion as to possible sponsorship or affiliation with Plaintiff. Tr. at 266 (Zwerner). Evidence of actual confusion between the parties' marks may be discounted in the instant action as "de minimis." This factor does not support a likelihood of confusion between the parties' marks.

5. *Defendant's Good Faith in Adopting the Mark*

Intentional copying gives rise to a presumption of a likelihood of confusion. *Mobil Oil Corp. v. Pegasus Petroleum Corp.*, 818 F.2d 254 (2d Cir. 1987); *cf. Lois Sportswear U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 875 (2d Cir. 1986) (intent largely irrelevant concerning the likelihood of confusion). An inference of bad faith is bolstered if the junior user, with knowledge of the senior user's mark, "proffered no credible innocent explanation" for its choice of the mark. *Centaur*, 830 F.2d at 1228. Defendant's imitative intent is also shown by its admitted intentional imitation of the North Sails logo. However, there is no showing that Defendant intended to copy a trademark. *See* Section (A)(4), *supra*. This factor may support a likelihood of confusion between the parties' marks.

6. *Quality of Defendant's Product*

Plaintiff did not present evidence showing that the quality of Defendant's products contributed to confusion

between the marks, and this factor does not support the likelihood of confusion between the parties' marks.

7. *Sophistication of the Buyers*

Usually sophistication of consumers weighs against potential confusion in distinguishing between contested marks. *See Plus Products v. Plus Discount Foods, Inc.*, 722 F.2d 999, 1007 (2d Cir. 1983). However, the issue in this case concerns the likelihood of confusion as to affiliation, sponsorship or approval of Defendant's goods by the Association, and increased sophistication of the relevant consumers may actually increase the potential for such confusion. This factor does not weigh against the likelihood of confusion.

8. *Other Factors*

The *Polaroid* factors are not exhaustive, and since the Court acts as a court of equity in infringement cases other equitable factors may be taken into consideration, including relative harm to the junior user as opposed to relative benefit to the senior user that would result from the requested relief. In this case Defendant has not shown the harm from an injunction against use of the "Star Class" marks to be significant, and the harm to Plaintiff from confusion by the use of its marks in a market related to competitive sailing could deprive Plaintiff of potential economic benefit. Furthermore, many of the problems of proof and the limited quantum of confusion shown in this case are traceable to the small size of Plaintiff's organization. However, it would be unfair to base protection of an organization's mark solely on the size of its membership, and the alleged infringement must be viewed in this context. Thus, a balance of the equities favors action protecting the Plaintiff's marks against infringement in a market linked to competitive sailing.

In sum, four of the *Polaroid* factors do not support a likelihood of confusion between the parties' marks, and four factors support the likelihood of confusion to varying degrees. After weighing these factors together, the Court finds some likelihood of confusion between the contested marks, but only de minimis or negligible actual confusion.

B. *RELIEF FOR PLAINTIFF UNDER THE LANHAM ACT*

A plaintiff who seeks money damages must introduce evidence of actual consumer confusion, while a plaintiff seeking injunctive relief need only prove a likelihood of confusion. *Resource Developers, Inc. v. Statute of Liberty-Ellis Island Foundation, Inc.*, 926 F.2d 134, 139 (2d Cir. 1991).

1. *Injunctive Relief*

Plaintiff has shown that a likelihood of confusion exists between the two marks, and is therefore entitled to injunctive relief. Defendant is ordered to cease production and sale of clothing bearing the mark "Star Class" in its Nantucket line, however Defendant is not enjoined from use of the star symbol. *See Star Bedding Co. v. Englander Co.*, 239 F.2d 537, 542-43 (8th Cir. 1957) (trademark incorporating a star did not give bedding company a general monopoly on the use of this symbol).

2. *Monetary Damages*

Plaintiff argues that an award of Defendant's profits from the Nantucket Line is an appropriate award for infringement of the "Star Class" marks, and is necessary to deter such infringement. *See George Basch Co., Inc. v. Blue Coral, Inc.*, 968 F.2d 1532, 1539 (2d Cir. 1992) ("By awarding the profits of a bad faith infringer to the rightful owner of a mark, we promote the secondary effect of deter-

ring public fraud regarding the source and quality of consumer goods and services."), *cert. denied*, 113 S.Ct. 510 (1992). However, the evidence at trial did not show such bad faith infringement by Defendant. Furthermore, Plaintiff did not prove actual confusion as required to recover money damages. *Resource Developers*, 926 F.2d at 139; *Tin Pan Apple, Inc. v. Miller Brewing Co., Inc.*, 737 F.Supp. 826 (S.D.N.Y. 1990). Because the evidence of actual confusion was "de minimis" in this case, Plaintiff has not met the requirements for an award of monetary damages, and Plaintiff's claim for monetary damages is denied.

C. *RELIEF FOR PLAINTIFF UNDER STATE LAW*

1. *Unfair Competition*

"The state law cause of action for unfair competition shares many common elements with the Lanham Act claims of false designation of origin and trademark infringement, including proof of actual confusion to recover damages, and proof of a likelihood of confusion for equitable relief." *W.W.W. Pharmaceutical Co., Inc. v. Gillette Co.*, 984 F.2d 567, 576 (2d Cir. 1993) (citations omitted). Plaintiff's failure to show actual confusion between the parties' marks renders its claim of unfair competition defective, and judgment will be entered in favor of Defendant on this claim.

2. *Dilution*

A claim of dilution under New York's anti-dilution statute, N.Y. Gen. Bus. L. § 368-d requires the establishment of three elements: (1) distinctiveness of the mark either from its distinctive quality or from secondary meaning; (2) likelihood of dilution by the blurring of product identification or the tarnishing of an affirmative association a mark has come to convey; and (3) predatory intent of the

junior user. *Deere & Co. v. MTD Products, Inc.*, 41 F.3d 39, 42 (2d Cir. 1994). Likelihood of confusion is not required for relief under Section 368-d. *Id.* However, Defendant's clothing was not shown to have blurred Plaintiff's product identity or tarnished its marks. Furthermore, no evidence showed Defendant intended to promote its product in using the mark "Star Class." *Id.* at 46. Thus Plaintiff's claim of dilution under state law is denied, and judgment will be entered for Defendant on this claim.

D. *Award of Attorneys Fees*

In "exceptional cases," a court may award attorneys fees to the prevailing party for a violation of the Lanham Act. 15 U.S.C. § 1117(a). "When bad faith infringement is shown, a district court is authorized to award attorney fees on the basis that an 'exceptional case' has been established." *Goodheart Clothing, Inc. v. Laura Goodman Enterprises, Inc.*, 962 F.2d 268, 272 (2d Cir. 1992) (citations omitted). Defendant was not shown to have infringed Plaintiff's marks in bad faith, and the Court finds that the instant dispute is not an "exceptional case" justifying the award of attorneys fees.

Conclusion

Plaintiff's claim for injunctive relief is granted, but judgment is to be entered for Defendant on all other claims by Plaintiff.

IT IS SO ORDERED.

Dated: New York, New York
April 25, 1995

/s/ ROBERT P. PATTERSON, JR.
Robert P. Patterson, Jr.
U.S.D.J.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

---

94 Civ. 2663 (RPP)

INTERNATIONAL STAR CLASS YACHT RACING ASSOCIATION,

Plaintiff,

—v.—

TOMMY HILFIGER, INC.,

Defendant.

APPEARANCES

Counsel for Plaintiff:

ROSS & HARDIES
65 East 55th Street
New York, NY 10022-3219
BY: J. Joseph Bainton
Phone: 212-421-5555
Fax: 212-421-5682

Counsel for Defendant:

GURSKY & BLAU
21 East 40th Street
New York, NY 10016
BY: Steven B. Blau
Phone: 212-213-1234
Fax: 212-213-1245

OPINION AND ORDER

ROBERT P. PATTERSON, JR., U.S.D.J.

Plaintiff, a not-for-profit organization, alleges in a Complaint filed on April 13, 1994 that Defendant, an incorporated clothing designer and vendor, engaged in unfair competition by infringement of a common law trademark and false designation of the origin of goods in violation of section 43(a) of the Lanham Act. Plaintiff also asserts pendent claims of injury to reputation and dilution of a distinctive mark in violation of New York General Business Law § 368-d. Plaintiff seeks an injunction in addition to damages. Plaintiff filed an Order to Show Cause for a Preliminary Injunction on April 14, 1994, and on April 21, 1994 the Court granted Plaintiff's application to consolidate the trial on the merits with a hearing on the application for a preliminary injunction. On June 10, 1994 Defendant filed a motion for summary judgment. The July 8, 1994 Affidavit by Joel J. Horowitz asserts that on August 3, 1993 "Tommy Hilfiger, Inc." assigned its trademarks to "Tommy Hilfiger Licensing, Inc." and that Defendant never manufactured, marketed or sold any of the clothing apparel or accessories constituting the Tommy Hilfiger® line.

I. *FACTUAL BACKGROUND*

The following facts are not disputed. In 1910 a group of sailing enthusiasts in New York designed a small yacht specially adapted for racing (its predecessor was known as the "Bug"), and orders for 22 yachts meeting the new design requirements were issued for delivery the following year. The name given to the racing yachts with these specifications was "Star" and its sail displayed a star. In January 1922 the Star Class Yacht Racing Association (the "Association") was formed and its constitution and by-laws were promulgated. Later that year the first register for the Association listed 110 yachts. The Association admitted a Canadian chapter and added the word "International" to its name in 1923. Currently the Association is divided into 20 Districts containing 170 fleets with over 2000 members who own about 1900 yachts in North America, Europe, South America, Australia, and Africa. A yacht is eligible and may be certified as in the "Star Class" only if it has been properly registered, conforms to measurement rules and is owned by a qualified active or life member recorded at the time as in good standing with the Association. "Star Class" yachts have raced in every Olympic competition since 1932 (except 1976), and yacht clubs vie to host World Championships and other "Star Class" races sanctioned by the Association. Winners of Association races are entitled to display a five-pointed star in gold, silver, blue or green (the "Star Class Insignia") on their sails and garments.

The Association regulates the design of "Star Class" sailboats and controls the eligibility of boats to compete in "Star Class" races. It requires that every registered yacht display a red star and its registration number on the mainsail and carved on the boat itself. Yacht builders wishing to obtain the Association's designation of "Star Class" for their boats must apply to the Association for this classifi-

cation and pay a tax or royalty of $150. Only sail manufacturers approved by the Association may manufacture a certified "Star Class" sail, and they must purchase a $30 sail royalty button from the Association to designate their sail as "Star Class" if the Association deems that its sail specifications have been satisfied, and then this button must be affixed to the sail.

Plaintiff has utilized several marks in connection with its activities. *See* Def. Ex. H. One of Plaintiff's marks is a star emblem prominently featuring a white sail, and to its left are five overlapping five-pointed stars of different colors (the top star is red). Beneath the five stars are the words "Star Class." Other marks used by the Association include a large star with the mark described above in the center, a large star with a white sail in the center, a circular series of stars including the words "REACH FOR THE STARS" surrounding a white sail containing another star, the words "STAR CLASS" with the two letters "A" replaced by sails, and twin superimposed stars adjacent to the words "STAR CLASS 1994." *See* Plaintiff's marks attached as Exs. A and C through G; Def. Ex. H.

Plaintiff has never registered its mark.[1] Since 1960 the Association has purchased and sold a limited number of items bearing its 'STAR CLASS' and 'STAR CLASS INSIGNIA' marks, including its flag, a necktie, a lapel pin, a blazer patch and a decal. Gross sales of these items to Association members totaled $10,388 in 1992, and $11,783 in 1993, and net sales were about $5500 yearly. Def. Ex. F at SC113-14 ("Sales of Class Merchandise" and "Cost of Class Merchandise Sold"). These sales are made only to

---

[1] A Trademark Research Report undertaken for Defendant located only two related federally registered marks: "Starclass Interiors" (seatcovers and convertible tops for vehicles, registered March 27, 1990) and "Star Class" (program guides for radio broadcasts, registered January 8, 1991). *See* Decl. of Neil A. Burstein filed April 20, 1994, Ex. 2 at 9.

Association members at its headquarters and through advertisements in Association publications, the "Log" and "Starlights," and not through stores. The Association permits host yacht clubs to cause the manufacture and sale of t-shirts, sweaters, caps, jackets and related items bearing the "Star Class" and "Star Class Insignia" marks solely as part of the promotion of the races. The manufacture and sale of these items is not regulated in any way by the Association.

Defendant is a public clothing design company whose sales exceeded $227 million in the year ending March 31, 1994. Horowitz Dep. at 63. Defendant's subsidiary "Tommy Hilfiger Licensing, Inc." owns the rights to the Trademark and Tradename "Tommy Hilfiger" and related emblems, logos, trade dress and symbols on all articles of clothing to which the federally registered trade name Tommy Hilfiger is attached. Horowitz Aff. at ¶ 3. Defendant's subsidiary's label is centered around a red, white and blue flag, known as a "burgee," and commonly used to denote a yacht club. See Defendant's mark attached as Ex. B; O'Connor Dep. at 11. The top of Defendant's mark reads "TOMMY HILFIGER," and on the bottom the words "STAR CLASS" are separated by a five point red star. The words "EST. MCMLXXXV" are divided to the left and right of the flag. Defendant began using this mark in its Spring 1994 collection "on garments of various styles, including those expressing a nautical theme." Defendant's Rule 3(g) Statement at ¶ 20.

II. *DISCUSSION*

A. *SUMMARY JUDGMENT*

Summary judgment is appropriate if the evidence offered demonstrates that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. *Anderson v. Liberty Lobby, Inc.*, 477

U.S. 242 (1986). The burden rests on the moving party to demonstrate the absence of a genuine issue of material fact, *Adickes v. S.H. Kress & Co.*, 398 U.S. 144, 157 (1970), and the Court must view the facts in the light most favorable to the non-moving party, *United States v. Diebold, Inc.*, 369 U.S. 654, 655 (1962). Although questions regarding the likelihood of confusion are normally factual in nature, see *American Int'l Group, Inc. v. London American Int'l Corp. Ltd.*, 664 F.2d 348, 351 (2d Cir. 1981), "courts retain an important authority to monitor the outer limits of substantial similarity within which a jury is permitted to make the factual determination whether there is a likelihood of confusion as to source." *Warner Bros. Inc. v. American Broadcasting Cos.*, 720 F.2d 231, 246 (2d Cir. 1983).

B. *LANHAM ACT CLAIM*

Section 43(a) of the Lanham Act proscribes "false designation of origin" in relation to goods or services. 15 U.S.C. § 1125(a).[2] A plaintiff must first demonstrate that its mark deserves protection under the Lanham Act in order to allege infringement. *Bristol-Myers Squibb Co. v. McNeil-P.P.C., Inc.*, 973 F.2d 1033, 1039 (2d Cir. 1992). "[T]he general principles qualifying a mark for registration under

---

[2] Section 43(a)(1) of the Lanham Act prohibits any person from using

> in connection with any goods . . . or any container for goods, . . . any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
>
> A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods . . . by another person[.]

15 U.S.C. § 1125(a)(1).

§ 2 of the Lanham Act are for the most part applicable in determining whether an unregistered mark is entitled to protection under § 43(a)." *Two Pesos, Inc. v. Taco Cabana, Inc.*, 112 S.Ct. 2753, 2757 (1992) (citations omitted). To prevail in an infringement action under Lanham Act § 43(a), "a plaintiff must prove (1) that its mark is distinctive and (2) that a likelihood of confusion exists between its product and the defendant's." *Paddington Corp. v. Attiki Importers and Distributors, Inc.*, 996 F.2d 577, 582 (2d Cir. 1993) (citing *Two Pesos, Inc.*, 112 S.Ct. at 2758; *Bristol-Myers Squibb Co.*, 973 F.2d at 1038-39).

1. *Distinctiveness of Plaintiff's Marks*

The classic analysis set forth by Judge Friendly to determine eligibility for trademark protection provides "an ascending order which roughly reflects . . . eligibility to trademark status and the degree of protection accorded, these classes are: (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful." *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976). Generic terms are ineligible for any protection.[3] Descriptive marks, " 'describing the qualities, ingredients, effects or other features of the product naturally and in ordinary language' are protectible only where secondary meaning can be established." *Thompson Medical Co., Inc. v. Pfizer, Inc.*, 753 F.2d 208, 212-13 (2d Cir. 1985) (quoting 3 R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies*, § 18.05 at 17 [L. Altman 4th ed.1983]). If an unregistered mark is deemed descriptive, proof of

[3] Examples of terms held to be generic include "thermos," *King-Seely Thermos Co. v. Aladdin Indus., Inc.*, 321 F.2d 577, 579 (2d Cir. 1963); "trampoline," *Nissen Trampoline Co. v. American Trampoline Co.*, 193 F. Supp. 745, 749 (S.D. Iowa 1961); and "aspirin," *Bayer Co. v. United Drug Co.*, 272 F.2d 505, 510-15 (S.D.N.Y. 1921)

secondary meaning is required for the mark to be protectible. *20th Century Wear, Inc. v. Sanmark-Stardust Inc.*, 747 F.2d 81, 87, 90 n. 10 (2d Cir. 1984), *cert. denied*, 470 U.S. 1052 (1985); *see also Two Pesos, Inc.*, 112 S.Ct. at 2757. "Suggestive marks are eligible for protection without any proof of secondary meaning, since the connection between the mark and the source is presumed." *Thompson Medical Co.*, 753 F.2d at 216. "Fanciful or arbitrary marks are eligible for protection without proof of secondary meaning and 'with ease of establishing infringement.' " *W.W.W. Pharmaceutical Co., Inc. v. Gillette Co.*, 984 F.2d 567, 572 (2d Cir. 1993) (quoting *Abercrombie & Fitch Co.*, 537 F.2d at 11).

Defendant contends that "Star Class" is at best a descriptive mark since it refers to a class of yachts produced by multiple manufacturers which meet certain design specifications. Defendant's Reply Mem. of Law at 3.[4] The Second Circuit recently defined again the four levels of trademark distinctiveness:

> As one commentator explained, "the word 'apple' would be arbitrary when used on personal computers, suggestive when used in 'Apple-A-Day' on vitamin tablets, descriptive when used in 'Tomapple' for combination tomato-apple juice and generic when used on apples.' " 1 J.T. McCarthy, *Trademarks and Unfair Competition* § 11:22, at 498-99 (2d ed. 1984) (quoted in *Bristol-Myers Squibb*, 973 F.2d at 1041 (upholding finding that the "pm" in "Excedrin PM" was descriptive rather than suggestive)); *see also Physicians Formula Cosmetics Inc. v. West Cabot Cosmetics, Inc.*, 857 F.2d 80, 82 (2d Cir. 1988) ("Physicians Formula"

---

[4] It is not necessary for goods to emanate from a single source since under the Lanham Act the word or symbol used need only be "likely to cause confusion" as to the affiliation or association of such person as to the approval of his or her goods by another person.

is suggestive when used for skin creams and lotions); *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1132 (2d Cir. 1979) (noting that district court found that registered trademark "Drizzler" is suggestive when applied to rain jackets, but only barely over the line between descriptive and suggestive).

Paddington Corp., 996 F.2d at 583.

When originally applied to the racing sailboat and sail developed in 1910, the designation "Star" would have been arbitrary if intended to connote a celestial body. However, it is more likely that "Star" was suggested by a member of the group interested in its success as a new design (and to distinguish the new boat from its predecessor, the "Bug"), and that this mark was selected to indicate the excellence of the boat's design for racing.[5] "Star" is often employed as a superlative by businesses (*see* Def. Ex. 2), and its long use includes references to baseball stars, star pupils, stars of stage and screen, and extraordinary newspaper editions labeled "Four Star Extras."[6] Furthermore, the five pointed star used by Plaintiff has also been used often to evoke excellence. In school students receive five pointed stars for distinction, and this use has been carried into movies and television, as well as other goods and services, as can be seen in the many applications where stars connote excellence. Thus the descriptive and superlative nature of the "Star" mark appears to outweigh any arbitrary or fanciful meaning based on its celestial significance.

---

[5] After providing the celestial meaning, *Webster's Third New International Dictionary* (Merriam-Webster 1986) defines "star" as an adjective denoting "outstanding excellence."

[6] The term "Star Class" has been registered with the Patents and Trademarks Office for use by manufacturers or distributors for auto seat covers and convertible tops, and for program guides for radio broadcasts. It is also used to denote categories for distinguishing many goods as in standard and luxury or star class goods (*see* Note 1, supra).

In any event, in view of its subsequent development the term "Star Class" is descriptive in that it described a particular classification of sailboats to be used for racing purposes. The formation of the Association in 1922 was to further these goals by controlling the equipment used in the yacht races so that sailing ability would play an increased role in winning races. Thus hulls and sails had to meet the original design specifications with such changes and improvements as the organization might establish.[7] Pl. Ex. 6. Plaintiff's use of the term "Star Class" in its title describes the scope of the regulatory authority it seeks to impose on sailboat racing enthusiasts and thus is a descriptive mark.

The U.S. Patent Office Trademark Trial and Appeal Board ("TTAB") reached a similar conclusion in 1978 when the Thistle Class Association opposed an application by a sailboat manufacturer to register the mark "Thistle" for labeling boats and sails. *Thistle Class Association v. Douglas & McLeod, Inc.*, 198 U.S.P.Q. 504 (TTAB 1978). Although the applicant's predecessor had designed the class specifications in 1945, the TTAB ruled that:

> [I]t is apparent from this record that these terms ["THISTLE" and the "THISTLE" emblem] have since passed into the lexicon of the boating industry to the extent that it [sic] identifies a class or type of sailboats rather than the origin thereof. . . . That is, "THISTLE" and "THISTLE" design possess a merely descriptive significance indicating a type or class of sailboats.

Id. at 512 (TTAB also found that the applicant had permitted others to build "Thistle" boats without any real control, that boat and sail specifications were modified over more than 25 years, that the opposer issued

---

[7] Changes from a gunter rig to a bermudan rig and other modifications have been made over the years. Pl. Ex. 6.

"Thistle" sail buttons, and that the term "Thistle" had been used by both parties and in other advertisements as a class designation).

Similarly, "Star Class" has "passed into the lexicon of the boating industry," and now constitutes a descriptive term because it describes qualities and features of the sailboat's design developed in 1910 and modified over the years.[8] *Thompson Medical Co.*, 753 F.2d at 212-13 (citing 3 R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* [L. Altman 4th ed. 1983]). Therefore, the marks "Star" and "Star Class" are not inherently distinctive and are protectible under the Lanham Act only if their secondary meaning is established.

a. *Secondary Meaning of "Star Class"*

Secondary meaning is acquired when " 'the mark comes to identify not only the goods, but the source of those goods,' even though the relevant consuming public might not know the name of the producer." *Centaur Communications, Ltd. v. A/S/M Communications*, 830 F.2d 1217, 1221 (2d Cir. 1987) (citing *20th Century Wear, Inc. v. Sanmark-Stardust Inc.*, 815 F.2d 8, 10 [2d Cir. 1987]). "[P]roof of secondary meaning entails vigorous evidentiary requirements" and the proponent bears the burden of showing that secondary meaning existed at the time of the alleged infringement. *20th Century Wear, Inc.*, 747 F.2d at 90 (citation omitted). Factors to be considered in determining whether secondary meaning exists for a mark include: (1) advertising expenditures, (2) consumer studies linking the mark to a source, (3) unsolicited media coverage of the

---

[8] *Webster's Third New International Dictionary* (Merriam-Webster 1986) also defines "star" as:

> 10: one of a class of international one-design sharp-chined racing sloops that are Marconi rigged and approximately 22 feet 9 inches in overall length with a sail area of 281 square feet[.]

product, (4) sales success, (5) attempts to plagiarize the mark, and (6) length and exclusivity of the mark's use. *Thompson Medical Co.*, 753 F.2d at 217; *see also Centaur Communications, Ltd.*, 830 F.2d at 1222.

"The plaintiff is not required to establish that all consumers relate the product to its producer; it need only show that a substantial segment of the relevant consumer group makes this connection." *Coach Leatherware Co., Inc. v. Ann Taylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991) (emphasis in original) (citing *Centaur Communications, Ltd.*, 830 F.2d at 1222). The relevant group of consumers in this case consists of those clothing purchasers likely to be enticed by the nautical theme of Defendant's clothing, and thus this segment of the population may be more likely to have some familiarity with the "Star Class" marks and therefore more prone to confusion regarding sponsorship or association between the parties.

(1) *Advertising Expenditures*

Secondary meaning for the "Star Class" marks is not supported by advertising expenditures by the Association.

(2) *Consumer Studies*

Plaintiff did not submit a consumer study to support a finding of secondary meaning for its marks.

(3) *Unsolicited Media Coverage*

Unsolicited media coverage of the "Star Class" marks is extensive (*see* Plaintiff's First Request to Take Judicial Notice, Volumes One and Two) and is evidence of a secondary meaning for this design of racing sailboats and to some extent the plaintiff in this action.

(4) *Sales Success*

The sales success of this yacht based on recognition of the "Star Class" marks and their importance in sailboat racing is evidence of secondary meaning for this design of racing sailboats.

(5) *Attempts to Plagiarize Plaintiff's Marks*

Although Plaintiff argues that attempts to plagiarize its marks support a finding of secondary meaning (*see* Plaintiff's Revised Mem. at 11-12), the infringement alleged here is not so close a utilization of Plaintiff's marks as to clearly constitute the "imitative intent [which] can help support a finding of secondary meaning." *Bristol-Myers Squibb Co.*, 973 F.2d at 1042 (citing *Centaur Communications, Ltd.*, 830 F.2d at 1224). Regardless, imitative intent does not mandate a finding of secondary meaning. *Id.*

(6) *Length and Exclusivity of Use*

The "Star Class" marks have been used for more than seven decades, and exclusivity is indicated by the Association's letter to Catalina Yachts in January 1992 seeking to enforce its sole use of "Star" as a mark, thus supporting secondary meaning of the mark with respect to yachts. *See* Pl. Exs. 4 and 5.

Therefore, three factors constitute some evidence of a secondary meaning for the "Star Class" marks, two factors do not support secondary meaning, and one factor is of equivocal force. The result raises an issue of fact on the question of secondary meaning.

2. *Likelihood of Confusion between the Marks*

Once a plaintiff has been found to have a protectible interest in a mark, the likelihood of confusion is measured

to determine whether this interest has been infringed. *Lois Sportswear U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 871 (2d Cir. 1986). Judge Friendly also described a nonexclusive list of factors to consider when examining the likelihood of confusion between two dissimilar products:

> [a] the strength of [the prior owner's] mark, [b] the degree of similarity between the two marks, [c] the likelihood that the prior owner will bridge the gap [between the two products], [d] actual confusion, [e] the reciprocal of defendant's good faith in adopting its own mark, [f] the quality of defendant's product, and [g] the sophistication of the buyers.

Polaroid Corp. v. Polaroid Electronics Corp., 287 F.2d 492, 495 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961). No single factor is determinative, "[r]ather a court should focus on the ultimate question of whether consumers are likely to be confused." *Paddington Corp.*, 996 F.2d at 584 (citation omitted). An examination of the *Polaroid* factors is required to evaluate the likelihood of confusion between the parties' marks.

a. *Strength of the "Star Class" marks*

The Association has developed the present meaning attributable to the "Star Class" marks over more than 70 years. Press reports and published books on sailing attest to the widespread recognition of the "Star Class" yachts and their popularity. *See* Plaintiff's First Request to Take Judicial Notice, Volumes One and Two. Also, in 1992 Plaintiff previously asserted its claim of exclusivity over the use of "Star Class" with respect to sail boats. *See* Pl. Ex. 4 and 5.

Defendant argues that the limited sales by the Association diminish any claims of consumer confusion related to the parties' marks. However, "the relatively small size of

a senior user's advertising budget or sales volume will not diminish the strength of its valid mark, and the scope of protection will not be narrowed because of such evidence." *McGregor-Doniger Inc. v. Drizzle Inc.*, 599 F.2d 1126, 1132 (2d Cir. 1979) (citation omitted). Thus the "Star Class" marks appear strong enough to result in a likelihood of confusion.

b. *Similarity between the Parties' Marks*

Prominent placement of "Tommy Hilfiger" on the top of Defendant's label serves to distinguish the parties' marks, but a consumer may nevertheless infer an agreement between Defendant and the Association to use the words "Star Class" in conjunction with a red star (the "Star Class Insignia") on the label. "In order to be confused, a consumer need not believe that the owner of the mark actually produced the item and placed it on the market. The public's belief that the mark's owner sponsored or otherwise approved the use of the trademark satisfies the confusion requirement." *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 204-5 (2d Cir. 1979) (citations omitted); *See also John Roberts Mfg. Co. v. University of Notre Dame Du Lac*, 258 F.2d 256 (7th Cir. 1958) (jewelry manufacturer's use of school name on rings without consent was unfair competition although university did not produce rings). The potential for confusion is fostered in this case by the nautical theme and sailing-type flag containing "TH" above the number 42 on Defendant's label. Defendant argues that the prominent location of "Tommy Hilfiger" on the label should prevent confusion, however this is not a case concerning competing goods but rather an issue of false association, and therefore the juxtaposition of "Tommy Hilfiger" does not avoid confusion regarding an endorsement by the Association.

c. *Will the Association "Bridge the Gap?"*

The current sales of related merchandise by the Association are at a minimal level, and the Association presented no significant evidence of its intent to market or license its marks for use on clothing sold to the general public. One witness may have testified to the contrary. *See* Def. Mem. at 19; Pl. Revised Mem. at 18. This factor does not support the likelihood of confusion.

d. *Actual Confusion*

Plaintiff provided affidavits by five Association members who asserted their confusion and consternation upon viewing the Defendant's label on clothing which included the words "Star Class," and these members interpreted the Defendant's mark to indicate that the Association had entered into an agreement to permit Defendant's use of the "Star Class" mark. *See* Rogers Decl., Burgess Decl., Kniepkamp Decl., Miller Decl., Kling Decl.; *see also* Conner Dep. at 9- 11. However, "it is significant that [the Plaintiff] did not undertake a consumer survey, a failure which strongly suggests that a likelihood of confusion cannot be shown." *E.S. Originals Inc. v. Stride Rite Corp.*, 656 F.Supp. 484, 490 (S.D.N.Y. 1987) (Sprizzo, J.); *see also Reebok Int'l v. K- Mart Corp.*, 849 F.Supp. 252, 268-69 (S.D.N.Y. 1994).

e. *Defendant's Good Faith in Adopting the Mark*

Defendant intentionally sought to produce an "authentic yachting atmosphere" and researched "coffee-table type books . . . to look for color, inspiration, pageantry and the feeling of a nautical line." Defendant's Reply Mem. at 7. The "Star Class" name and insignia may have been obtained from such a search, and thus expropriated to ben-

efit the clothes' "nautical" design. The Second Circuit has noted that:

> Where a second-comer acts in bad faith and intentionally copies a trademark or trade dress, a presumption arises that the copier has succeeded in causing confusion. In determining a defendant's intent, "actual or constructive knowledge" of the prior user's mark or dress may indicate bad faith. Where such prior knowledge is accompanied by similarities so strong that it seems plain that deliberate copying has occurred, we have upheld findings of bad faith.

Paddington Corp., 996 F.2d at 586-87 (citations omitted). Therefore Defendant's actions may support a finding of confusion.

f. *Quality of Defendant's Product*

The single affidavit submitted by Plaintiff claiming that Defendant's products were not of comparable quality to the Collateral Merchandise marketed by the Association did not provide any factual support for such a conclusion, and this factor does not weigh in favor of consumer confusion. *See* Miller Decl. at ¶¶ 8-9.

g. *Sophistication of the Buyers*

Usually sophistication of consumers weighs against potential confusion in distinguishing between contested marks. *See Plus Products v. Plus Discount Foods, Inc.*, 722 F.2d 999, 1007 (2d Cir. 1983). However, the issue in this case concerns the likelihood of confusion as to affiliation, sponsorship or approval of Defendant's goods by the Association, and increased sophistication of the relevant consumers may actually increase the potential for such confusion. This factor does not weigh against the likelihood of confusion.

After weighing the Polaroid factors, the Court holds that the factual determinations necessary for resolving the issue of likelihood of confusion preclude summary judgment for the Defendant.

C. *STANDARD FOR STATE LAW CLAIMS*

"The state law cause of action for unfair competition shares many common elements with the Lanham Act claims of false designation of origin and trademark infringement, including proof of actual confusion to recover damages, and proof of a likelihood of confusion for equitable relief." *W.W.W. Pharmaceutical Co., Inc. v. Gillette Co.*, 984 F.2d 567, 576 (2d Cir. 1993) (citations omitted). "[A] showing of secondary meaning is not necessary to prove unfair competition under New York State common law." *Coach Leatherware Co.*, 933 F.2d at 169.

A claim for dilution under New York's anti-dilution statute, N.Y. Gen. Bus. L. § 368-d requires the establishment of three elements: (1) distinctiveness of the mark either from its distinctive quality or from secondary meaning, (2) likelihood of dilution by the blurring of product identification or the tarnishing of an affirmative association a mark has come to convey, and (3) predatory intent of the junior user. *W.W.W. Pharmaceutical Co.*, 984 F.2d at 576-77. Likelihood of confusion is not required for relief under Section 368-d. *Dallas Cowboys*, 604 F.2d at 205, n. 8.

Thus the state law claims are not ripe for summary judgment since they require factual determinations similar to those for the Lanham Act claims.

CONCLUSION

Summary judgment is not appropriate unless the Court is "satisfied that the products or marks are so dissimilar that no question of fact is presented." *Universal City Studios, Inc. v. Nintendo Co., Ltd.*, 746 F.2d 112, 116 (2d Cir. 1984). The significant factual determinations necessary for deciding this case preclude summary judgment, and Defendant's motion is denied.

Counsel will attend a pretrial conference in this matter at 9:00 a.m. on December 5, 1994 to set a trial date on or after December 12, 1994.

In view of the Defendant's position that it is the acts of Defendant's wholly owned subsidiary which are the subject of the Complaint, at the conference the Court will allow the Complaint to be amended substituting that subsidiary as Defendant unless there is good reason not to do so.

IT IS SO ORDERED.

Dated: New York, New York
November 30, 1994

/s/ ROBERT P. PATTERSON, JR.
Robert P. Patterson, Jr.
U.S.D.J.

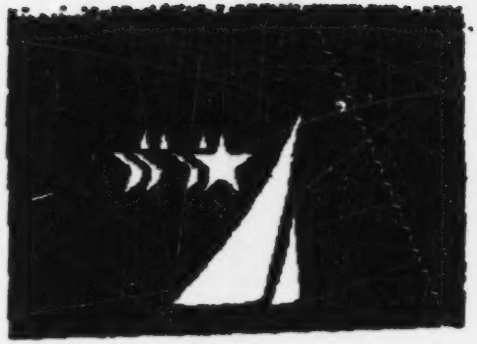


Exhibit A

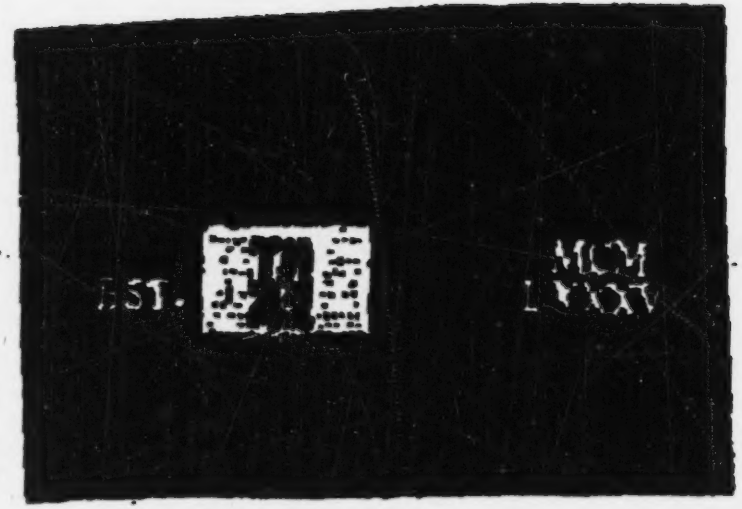
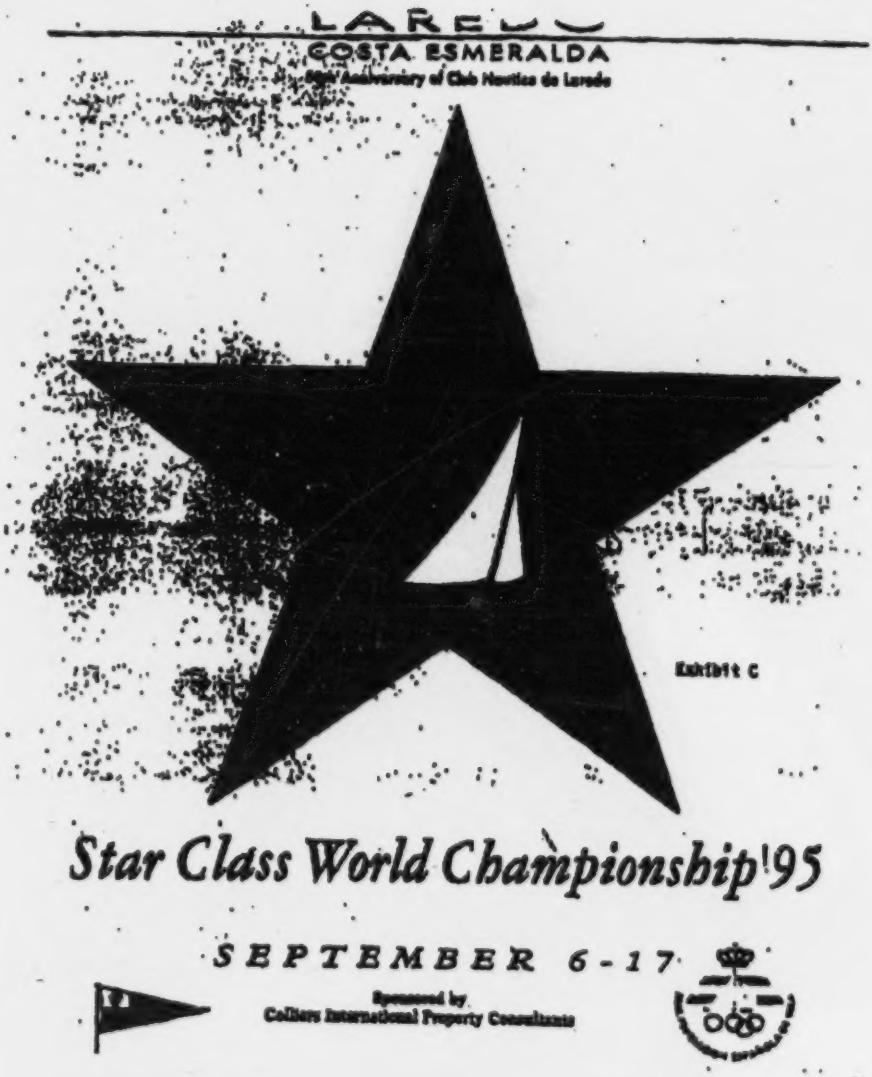


Exhibit B



Star Class World Championship '95

SEPTEMBER 6-17

Sponsored by
Colliers International Property Consultants

Exhibit D

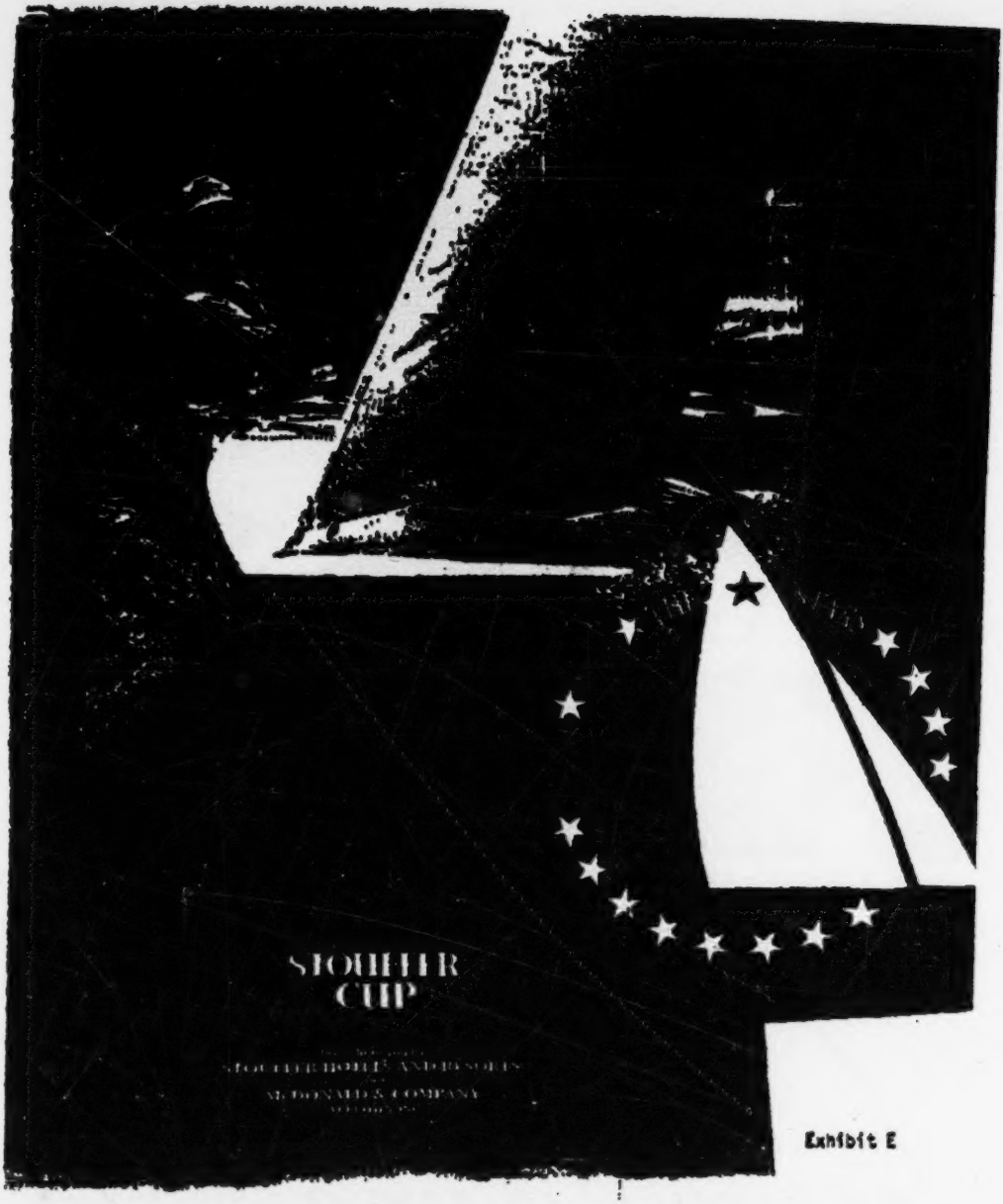


Exhibit E

PROGRAMME AND SAILING INSTRUCTIONS

Exhibit F

ISCYRA WORLD CHAMPIONSHIP 1994

STAR CLASS 1994

SAN DIEGO . CALIFORNIA . USA . SEPTEMBER 7-18 . 1994

Exhibit G

STATUTORY PROVISIONS

UNITED STATES CODE
TITLE 15—COMMERCE AND TRADE
CHAPTER 22—TRADEMARKS
SUBCHAPTER III—GENERAL PROVISIONS

§ 1111. Notice of registration; display with mark; recovery of profits and damages in infringement suit.

Notwithstanding the provisions of section 1072 of this title, a registrant of a mark registered in the Patent and Trademark Office, may give notice that his mark is registered by displaying with the mark the words "Registered in U.S. Patent and Trademark Office" or "Reg. U.S. Pat. & Tm. Off." or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this chapter by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this chapter unless the defendant had actual notice of the registration.

* * *

§ 1114. Remedies; infringement; innocent infringement by printers and publishers.

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; or

(b) reproduce, counterfeit, copy, or colorably imitate a registered mark and apply such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles or advertisements intended to be used in commerce upon or in connection with the sale, offering for sale, distribution, or advertising of goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive,

shall be liable in a civil action by the registrant for the remedies hereinafter provided. Under subsection (b) hereof, the registrant shall not be entitled to recover profits or damages unless the acts have been committed with knowledge that such imitation is intended to be used to cause confusion, or to cause mistake, or to deceive.

As used in this paragraph, the term "any person" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

(2) Notwithstanding any other provision of this chapter, the remedies given to the owner of a right infringed under this chapter or to a person bringing an action under section 1125(a) of this title shall be limited as follows:

(A) Where an infringer or violator is engaged solely in the business of printing the mark or violating matter for others and establishes that he or she was an innocent infringer or innocent violator, the owner of the right infringed or person bringing the action under section 1125(a) of this title shall be entitled as against such infringer or violator only to an injunction against future printing.

(B) Where the infringement or violation complained of is contained in or is part of paid advertising matter in a newspaper, magazine, or other similar periodical or in an electronic communication as defined in section 2510(12) of title 18, the remedies of the owner of the right infringed or person bringing the action under section 1125(a) of this title as against the publisher or distributor of such newspaper, magazine, or other similar periodical or electronic communication shall be limited to an injunction against the presentation of such advertising matter in future issues of such newspapers, magazines, or other similar periodicals or in future transmissions of such electronic communications. The limitations of this subparagraph shall apply only to innocent infringers and innocent violators.

(C) Injunctive relief shall not be available to the owner of the right infringed or person bringing the action under section 1125(a) of this title with respect to an issue of a newspaper, magazine, or other similar periodical or an electronic communication containing infringing matter or violating matter where restraining the dissemination of such infringing matter or violating matter in any particular issue of such periodical or in an electronic communication would delay the delivery of such issue or transmission of such electronic communication after the regular time for such delivery or transmission, and such delay would be due to the method by which publication and distribution of such periodical or transmission of such electronic communication is customarily conducted in accordance with sound business practice, and not due to any method or device adopted to evade this section or to prevent or delay the issuance of an injunction or restraining order with respect to such infringing matter or violating matter.

(D) As used in this paragraph—

(i) the term "violator" means a person who violates section 1125(a) of this title; and

(ii) the term "violating matter" means matter that is the subject of a violation under section 1125(a) of this title.

* * *

§ 1117(a). Recovery for violation of rights; profits; damages and costs; attorney fees.; treble damages; election.

(a) When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

* * *

§ 1125(a). False designations of origin, false descriptions, and dilution forbidden.

(a) Civil action

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

(2) As used in this subsection, the term "any person" includes any State, instrumentality of a State or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this chapter in the same manner and to the same extent as any nongovernmental entity.

* * *

Supreme Court, U.S.
FILED
AUG - 7 2000
CLERK

(2)

No. 00-33

IN THE

Supreme Court of the United States

INTERNATIONAL STAR CLASS
YACHT RACING ASSOCIATION,

Petitioner,

v.

TOMMY HILFIGER U.S.A., INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF IN OPPOSITION

LOUIS S. EDERER
Counsel of Record
STEVEN R. GURSKY
WALTER ELIOT BARD
ROBERT S. OGDEN
JOHN MALTBIE
GURSKY & EDERER, P.C.
Attorneys for Respondent
1350 Broadway, 11th Floor
New York, New York 10018
(212) 904-1234

161419

Counsel Press LLC
(800) 274-3321 • (800) 359-6859

3 BOP

COUNTERSTATEMENT OF QUESTIONS PRESENTED

1. In an action for trademark infringement, does the Second Circuit's requirement of a showing of bad faith, in applying principles of equity to determine whether to award an infringer's profits, constitute a departure from the language of Section 35(a) of the Lanham Act, or a conflict with the decision of any other Circuit Court, where no Circuit Court has awarded an infringer's profits in the absence of a showing of bad faith?

2. Where an infringer has not acted in bad faith, where the trademark owner has shown no actual damages, where no actual confusion exists, and where a consideration of other equitable factors deemed relevant by the Circuit Courts in determining whether to award profits lies in favor of the infringer, should a finding of infringement entitle a trademark owner to a presumptive award of the infringer's profits under Section 35(a) of the Lanham Act?

3. Does the denial of an award of attorneys' fees in the absence of a showing of bad faith conflict with the plain language and legislative history of Section 35(a) of the Lanham Act?

STATEMENT PURSUANT TO RULE 29.6

Respondent, Tommy Hilfiger U.S.A., Inc., is a wholly-owned subsidiary of Tommy Hilfiger Corporation.

TABLE OF CONTENTS

	Page
Counterstatement of the Questions Presented	i
Statement Pursuant to Rule 29.6	ii
Table of Contents	iii
Table of Cited Authorities	v
Counterstatement of the Case	1
Reasons for Denying the Writ	7
I. This Case Does Not Present An Important Or Novel Question Of Law Which Warrants Review By This Court, But Rather Is An Attempt By Petitioner To Gain A Windfall	7
II. The Court Below Did Not Misapply The Lanham Act, Misinterpret Supreme Court Precedent, Or Render A Judgment That Conflicts With The Law Of Other Circuits	10
A. The Lanham Act Subjects the Recovery of Monetary Damages to the Principles of Equity, and those Principles were Followed by the Second Circuit	10

Contents

Page

B. The Decision of the Court Below Does Not Conflict with the Decisions of Other Circuits 12

C. The Court Below Did Not Misinterpret Supreme Court Precedent 17

D. The Equities of the Case Do Not Support Petitioner's Claim for Recovery 19

III. The Decision Of The Court Of Appeals Does Not Conflict With The Plain Meaning Or The Legislative History Of The Lanham Act ... 21

IV. The Court Of Appeals Did Not Misinterpret The Lanham Act With Respect To The Denial Of Attorneys' Fees 23

Conclusion 25

TABLE OF CITED AUTHORITIES

Page

Cases:

Adray v. Adry-Mart, Inc., 76 F.3d 984 (9th Cir. 1995) 16, 17

Alpo Petfoods, Inc. v. Ralston Purina Co., 913 F.2d 958 (D.C. Cir. 1990) 9

Banff, Ltd. v. Colberts, Inc., 996 F.2d 33 (2d Cir.), *cert. denied*, 510 U.S. 1010 (1993) 7

Burger King Corp. v. Mason, 855 F.2d 779 (11th Cir. 1988) 15

Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947) 12, 17, 18

Chanel Inc. v. Italian Activewear of Fla., Inc., 931 F.2d 1472 (11th Cir. 1991) 15

Conopco, Inc. v. Campbell Soup Co., 95 F.3d 187 (2d Cir. 1996) 24

Everest & Jennings, Inc. v. E & J Mfg. Co., 263 F.2d 254 (9th Cir. 1958), *cert. denied*, 360 U.S. 902 (1959) 16

George Basch Co. v. Blue Coral, Inc., 968 F.2d 1532 (2d Cir.), *cert. denied*, 506 U.S. 991 (1992) 7, 8, 11, 13, 14, 16, 18, 24

Cited Authorities

Page

Graver Tank & Mfg. Co. v. Linde Air Prods. Co., 336 U.S. 271, *reh'g granted on question of law*, 337 U.S. 910 (1949) 9

Louis Vuitton S.A. v. Lee, 875 F.2d 584 (7th Cir. 1989) 14, 21

Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest., 771 F.2d 521 (D.C. Cir. 1985) 24

Pebble Beach Co. v. Tour 18 I Ltd., 155 F.3d 526 (5th Cir. 1998) 11, 16

Polaroid Corp. v. Polarad Electronics Corp., 287 F.2d 492 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961) 3

Polo Fashions, Inc. v. Dick Bruhn, Inc., 793 F.2d 1122 (9th Cir. 1986) 21

Rolex Watch, USA, Inc. v. Meece, 158 F.3d 816 (5th Cir. 1998), *cert. denied*, 526 U.S. 1133 (1999) 16

Roulo v. Russ Berrie & Co., 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990) ..7, 14, 15, 24

Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947 (7th Cir. 1992), *cert. denied*, 507 U.S. 1042 (1993) 7, 15

United States v. Johnston, 268 U.S. 220 (1925) ... 9

Cited Authorities

Page

Statutes:

15 U.S.C. § 1117(a) ..... *passim*

15 U.S.C. § 1117(b) 15

Rules:

Fed. R. Civ. P. 52(a) 9

United States Supreme Court Rule 10 17

Other Authorities:

James M. Koelemay, Jr., *A Practical Guide to Monetary Relief in Trademark Infringement Cases*, 85 TRADEMARK REP. 263 (1995) 11, 12

House Report No. 603, 78th Cong. 1st Sess., 1943 ... 22

House Report No. 219, 79th Cong. 1st Sess., 1945 ... 22

House Report No. 1333, 79th Cong. 2nd Sess., 1946 .. 22

HR 1654 22

HR 8981 23

HR 9041 22

Restatement (Third) of Unfair Competition, § 37(1)(a) 14

Respondent Tommy Hilfiger-U.S.A., Inc. respectfully requests that this Court deny the Petition for a Writ of Certiorari seeking review of the decision of the United States Court of Appeals for the Second Circuit.

COUNTERSTATEMENT OF THE CASE

The case petitioner describes in its Statement of the Case bears little resemblance to the case actually tried before the Hon. Robert P. Patterson, Jr. of the United States District Court for the Southern District of New York, and appealed three times to the United States Circuit Court of Appeals for the Second Circuit, all over a six-year period. Although petitioner tries to portray itself as the hapless victim of a large corporation, it is petitioner that seeks (and has sought unsuccessfully through three appeals) a monetary bonanza for respondent's unintentional infringement of petitioner's unregistered "Star Class" mark. Although Judge Patterson held that "Star Class" was barely a trademark at all, was hardly infringed, contributed virtually nothing to the value of respondent's garments, and respondent neither adopted nor used "Star Class" in bad faith, petitioner nevertheless, for the fourth time, appeals ultimately to recover not only respondent's profits, but all of the revenues respondent ever generated from the sale of garments bearing the infringed mark.

From the beginning of this litigation, Judge Patterson found that respondent, the owner of some of the most famous trademarks in the apparel industry, did not adopt or use the term "Star Class" knowing that it was a trademark or even that petitioner existed. Pet. App. at 60a, 92a. The District Court found that the respondent used the term "Star Class" as a decoration or embellishment on a line of nautical clothing, believing that it was a generic term used in yacht racing. Pet. App. at 37a. Further, before using "Star Class" as an embellishment, respondent conducted a scan trademark

search, which did not disclose any federal trademark registrations owned by petitioner. Later, when suit was filed, respondent conducted a full trademark search, and that search disclosed no ownership or registration by petitioner of any mark — the only reference to petitioner being on the last page of a 140 page search report, in the common law trade name section of the report, indicating petitioner's name and the fact that it was used in connection with "yacht club membership." Pet. App. at 65a. Judge Patterson found that this, coupled with the fact that respondent's counsel had advised that "Star Class" was a weak mark at best (a conclusion Judge Patterson also reached), did not support petitioner's assertion that respondent's decision to continue selling the garments after being put on notice of petitioner's claim was evidence of bad faith. Pet. App. at 37a.

From the outset, petitioner's entire litigation strategy was to attempt to recover a windfall. Petitioner did not seek a temporary restraining order, but merely asked the District Court to consolidate its motion for a preliminary injunction with the trial on the merits. Pet. App. at 98a. Petitioner never sought a recall of the goods, either in its complaint or in the motion for preliminary injunction. At trial, petitioner failed to show that anyone had been confused by respondent's use, or that petitioner had suffered any actual damage. Further, petitioner proffered no evidence that respondent's use of "Star Class" conferred any benefit on respondent, or that its "Star Class" mark had any value at all when used as a mark on clothing. In addition, petitioner failed to demonstrate any actual consumer confusion, loss of royalties, loss of sponsorship income, loss of membership from its yacht racing association, or that respondent's goods were of poor quality. Rather, petitioner's entire effort was directed toward recovering as much of respondent's revenues from the sale of garments embellished with the word "Star Class" as it could convince the Court to award.

At trial, based on the evidence presented, the Court found that respondent did not decide to use "Star Class" knowing that it was a trademark; that its use of "Star Class" on garments was as a decoration only; that all of the garments bearing the term "Star Class" had multiple, prominent applications of respondent's famous "Tommy Hilfiger" and "Flag Logo" trademarks on labels, hang tags and embroideries; that retailers did not purchase the garments in question because they bore the term "Star Class," but rather because the garments emanated from respondent and prominently bore respondent's famous marks; and that the use of "Star Class" as a mark conferred no benefit on respondent. Pet. App. at 37a-38a, 47a, and 74a.

In his decision following trial, Judge Patterson struggled with the notion that "Star Class," as used by petitioner, was even a protectable mark. After examining the evidence, the Court finally concluded that it was, although it was "a close call." Pet. App. at 77a-86a. Judge Patterson then struggled again with the issue of whether there was any likelihood of confusion (finding the Second Circuit's *Polaroid* factors[1] were divided evenly at 4-4), since there was no evidence that petitioner had used the mark on clothing or that respondent competed with petitioner in any way, or that anyone was confused. Ultimately, however, Judge Patterson found that the mark had been infringed, and entered a permanent injunction. Pet. App. at 94a.

On the issue of a monetary award, however, the District Court drew the line, finding that an injunction was a more than adequate remedy. On the issue of damages, the Court found that petitioner had proffered no evidence of economic

---

1. *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961). *Polaroid* is the leading case in the Second Circuit setting out the factors for determining likelihood of confusion.

harm, and no evidence of actual confusion, so the Court refused to make any damage award. On the issue of respondent's profits, the Court considered all facts and circumstances that would bear on the equities, including the absence of damage or confusion, and in particular its earlier finding during the liability phase that respondent had not acted in bad faith at any stage, and refused to award any of respondent's profits to petitioner. Pet. App. at 94a-95a.

Following trial, and on the first appeal, petitioner raised for the first time the argument that respondent had acted in bad faith when it first conducted a scan trademark search for "Star Class," because it allegedly ignored its counsel's advice to conduct a more extensive, "full" search. That argument became the focus of the first appeal, and the Circuit Court remanded to Judge Patterson for further findings on that issue. However, the Circuit Court did not upset any of the District Court's other findings on the issue of bad faith or the relative equities of the case, and also affirmed the District Court's determination that petitioner had not demonstrated any confusion, or proven that it had suffered any actual damages. Pet. App. at 26a.

On the first remand to the District Court, on the second appeal, and on the second remand, the continued focus was on the question of whether respondent had acted in bad faith because it had allegedly ignored the advice of its counsel to run a full trademark search. On this issue, the District Court held fast to its finding that respondent had not ignored the advice of its counsel to run a full trademark search, because, Judge Patterson concluded, respondent's counsel had not advised it to run such a search. Pet. App. at 64a. However, in its decision following the second remand, the District Court took the opportunity, again, to summarize its findings on the equities, and in particular its conclusions on all of petitioner's allegations of bad faith.

The Court need look no further than the District Court's most recent opinion again denying petitioner any monetary relief (and refuting completely all the same arguments petitioner makes again in its petition) to recognize that there were no inequities visited on petitioner, and that, as Judge Patterson succinctly stated, "the entry of an injunction against use of [petitioner]'s trademark was sufficient to deter any further infringement of [petitioner]'s unregistered mark." Pet. App. at 38a. Among other things, Judge Patterson held that:

A. According to the unrebutted evidence at trial, the sales of [Hilfiger]'s garments were driven by the prominent use of [Hilfiger]'s name, initials and crests, which identified the garments as [Hilfiger]'s products, and not the words "Star Class." In view of the manner of display and labeling, and the prominent use of the Hilfiger marks, there would be little, if any, motivation for bad faith appropriation of [petitioner]'s mark by [Hilfiger]. The evidence does not demonstrate that Hilfiger willfully intended to cause confusion or deception or to profit from plaintiff's reputation. Pet. App. at 33a.

B. There is no showing the Hilfiger had knowledge of the existence of [petitioner] or of the mark's association with any entity at all, let alone any commercial use of the designation Star Class. Pet. App. at 33a-34a.

C. Further casting doubt on the proposition that [respondent] acted in bad faith is the minimal value the Star Class mark added to [respondent]'s sales, and the improbability that [respondent] would choose the mark in the hope of deceiving consumers or capitalizing on [petitioner]'s reputation. Pet. App. at 36a.

D. Indeed, as aforementioned, the Court found it a "close question" whether or not [petitioner] had any trademark rights at all. Pet. App. at 37a.

E. In view of the fact that (1) Hilfiger was only using the Star Class mark as an embellishment on its Nantucket line of clothing, which was exceedingly well trademarked with the Hilfiger name designating the source of the goods, (2) there is no showing that Hilfiger intended to copy a trademark, (3) Hilfiger's conduct was consistent with the advice of its attorneys concerning when a full search would be required, and (4) Hilfiger was reasonably advised by its attorneys that the Star Class mark was weak, the Court finds that the evidence is insufficient to support a finding a bad faith. *Id.*

F. The evidence shows that the [respondent]'s profits flowed overwhelmingly from the presence on the clothing of "TOMMY HILFIGER" in big letters, the initials "T.H.," and the Hilfiger flag design mark . . . Zwerner testified that, in contrast, the words "Star Class" on garments "didn't mean anything except 'He's high class.' " . . . As shown by the Zwerner testimony, the use of the Star Class mark conferred little benefit on Hilfiger. Pet. App. at 38a-39a.

In light of these clear findings that the equities favor respondent, which were not disturbed by the Second Circuit on the third appeal, further review for the purpose of finding a way to redistribute respondent's profits to petitioner, or for any perceived wrong to be righted, is not warranted. This, coupled with the fact that, as shown below, there is no split in the circuits on the application of the Lanham Act to claims for an accounting of profits, require that the petition be denied.

REASONS FOR DENYING THE WRIT

I.

THIS CASE DOES NOT PRESENT AN IMPORTANT OR NOVEL QUESTION OF LAW WHICH WARRANTS REVIEW BY THIS COURT, BUT RATHER IS AN ATTEMPT BY PETITIONER TO GAIN A WINDFALL

In denying petitioner the remedy of an award of respondent's profits, the Court of Appeals did not address a novel question, create new law or diverge from established precedent. Rather, it applied the same equitable principles that have long been followed by the Circuit Courts, and mandated by the history and plain language of the Lanham Act, to the *three-time* determination of the District Court that respondent did not act in bad faith in adopting and using petitioner's trademark. Indeed, this petition raises precisely the same issue on which this Court has denied *certiorari* at least four times in the past eleven years. *Roulo v. Russ Berrie & Co.*, 886 F.2d 931 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990); *George Basch Co. v. Blue Coral, Inc.*, 968 F.2d 1532 (2d Cir.), *cert. denied*, 506 U.S. 991 (1992); *Banff, Ltd. v. Colberts, Inc.*, 996 F.2d 33 (2d Cir.), *cert. denied*, 510 U.S. 1010 (1993); and *Sands, Taylor & Wood Co. v. Quaker Oats Co.*, 978 F.2d 947 (7th Cir. 1992), *cert. denied*, 507 U.S. 1042 (1993).

In this action for trademark infringement, in which the District Court found petitioner's mark to be barely protectable and hardly infringed, petitioner seeks a $3.3 million windfall, consisting not only of all of respondent's profits, but all of its *revenues* from the sale of goods bearing the infringed mark. Importantly, the District Court determined that despite millions of dollars in sales, had the equities called for an award (and they did not), the contribution of petitioner's mark to those sales was so

minimal that an award of no more than $20,460.50 would have been appropriate. Pet. App. at 39a.

While the petitioner carefully couches its request for review in terms of a split in the circuits, the petition is, in reality, an attempt to have yet another court — for the seventh time — rule on the equities, and, in effect, reverse the District Court's findings of no bad faith. The petitioner, in making its claim not only for respondent's profits, but for all of the revenues generated by respondent, seeks to obscure (i) the contribution of respondent's famous marks to the sale of the goods, (ii) the weakness of its own mark, (iii) the costs inherent in producing the goods, (iv) the petitioner's own failure to seek a temporary restraining order, (v) the District Court's repeated findings of a lack of bad faith, (vi) the Second Circuit's affirmation of those findings, and (vii) the failure to introduce any evidence of actual consumer confusion, actual damages, or any intent to deceive.

This is exactly the type of case about which the Circuit Courts have expressed concern, where a plaintiff, should it be allowed to recover an award of profits, would stand to gain an undeserved windfall. As the Second Circuit noted in *George Basch Co.:*

> We believe that [a willfulness] requirement is necessary to avoid the draconian impact that a profits remedy might have in some cases. While damages directly measure the plaintiff's loss, *defendant's* profits measure the defendant's gain. Thus, an accounting may overcompensate for a plaintiff's actual injury and create a windfall judgment at the defendant's expense.

George Basch Co., supra, 968 F.2d at 1540 (emphasis in original). The same concerns were expressed by then Circuit

Court Judge Thomas in *Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 961, 969 (D.C. Cir. 1990) ("willful, targeted wrongdoing" is a prerequisite "for the severe and often cumbersome remedy of a profits award").

Arguing that petitioner is entitled not only to the respondent's profits, but its *revenues*, the petition should be seen as no more than an attempt to convince this Court to reverse the factual findings of the District Court. As this Court has consistently held, "[w]e do not grant a certiorari to review evidence and discuss specific facts." *United States v. Johnston*, 268 U.S. 220, 227 (1925). The principle applies *a fortiori* here because all three judges on the Court of Appeals affirmed these findings as not clearly erroneous. Pet. App. at 1a-4a; Fed. R. Civ. P. 52(a). *See Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 336 U.S. 271, 275 ("A court of law, such as this Court is, rather than a court for correction of errors in fact finding, cannot undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error"), *reh'g granted on question of law*, 337 U.S. 910 (1949). Moreover, respondent's petition for rehearing and suggestion for rehearing *en banc* did not receive a single vote from the Court of Appeals. Pet. App. at 5a-6a.

II.

THE COURT BELOW DID NOT MISAPPLY THE LANHAM ACT, MISINTERPRET SUPREME COURT PRECEDENT, OR RENDER A JUDGMENT THAT CONFLICTS WITH THE LAW OF OTHER CIRCUITS

A. The Lanham Act Subjects the Recovery of Monetary Damages to the Principles of Equity, and those Principles were Followed by the Second Circuit

Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a), provides for the recovery of monetary damages in trademark infringement actions. The statute states:

> When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. . . . If the court shall find that the amount of recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case.

While neither the statute nor the legislative history (see discussion below) defines the term "principles of equity," courts have considered a wide variety of factors in determining whether to award monetary relief. In the Second Circuit, the Court of Appeals has defined those principles,

and the role of the court in determining whether to award an accounting of profits, as follows:

> While under certain circumstances, the egregiousness of the fraud may, of its own, justify an accounting . . . generally there are other factors to be considered. Among these are such familiar concerns as: (1) the degree of certainty that the defendant benefited from the unlawful conduct; (2) the availability and adequacy of other remedies; (3) the role of a particular defendant in effectuating the infringement; (4) plaintiff's laches; and (5) plaintiff's unclean hands. . . . The district court's discretion lies in assessing the relative importance of these factors and determining whether, on the whole, the equities weigh in favor of an accounting. As the Lanham Act dictates, every award is "subject to equitable principles" and should be determined "according to the circumstances of the case."

George Basch Co., supra, 968 F.2d at 1541-42 (citations omitted).

While the Second Circuit and other Circuit Courts consider many factors in applying principles of equity to decide whether to award an infringer's profits[2], chief among

---

2. *See Pebble Beach Co. v. Tour 18 I Ltd.*, 155 F.3d 526, 554 (5th Cir. 1998) ("relevant factors to the court's determination of whether an award of profits is appropriate include, but are not limited to, (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the misconduct unprofitable, and (6) whether it is a case of palming off"). *See also* James M. Koelemay, Jr., *A Practical Guide to Monetary Relief in Trademark Infringement Cases*, 85 TRADEMARK REP. 263, 280 n.83 (1995) [hereinafter *Koelemay*].

those has always been whether the infringement was committed willfully or in bad faith. The only difference between circuits, if there is any, is the degree of emphasis placed on the bad faith factor. Some Circuit Courts have held that bad faith must be present before an infringer's profits can be awarded, while others have held only that bad faith is the most important factor to consider. However, no Federal Court, district or circuit, has ever made an award of the infringer's profits without a showing of bad faith.[3]

In support of its argument that there is a split in the circuits, petitioner states that in the Seventh and Eleventh Circuits, there is a "presumptive" right to a recovery of respondent's profits, even in the absence of bad faith. Pet. at 7. As shown below, however, there is no such presumption. No court has ever held that a profit award is, or should be, the automatic result of a finding of infringement. *See Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 131 (1947) (accounting of profits will not be ordered "merely because there has been an infringement"). Rather, all courts do exactly what Section 35(a) prescribes — apply principles of equity to the facts of each case to determine whether a trademark owner should be entitled to recover an infringer's profits.

B. The Decision of the Court Below Does Not Conflict with the Decisions of Other Circuits

The cases cited by petitioner do not demonstrate a conflict of decisions which warrants review by this Court. The petition does not cite a single case in which a recovery of profits was upheld where willful infringement was not

---

3. Contrary to petitioner's arguments, a finding of bad faith is not a matter to be determined by the application of a strict formula. Rather, a number of factors have been considered by the courts in making determinations with respect to bad faith. *See Koelemay, supra*, at 271-76 (listing 22 factors that courts have deemed relevant to a willfulness inquiry).

shown. Whatever superficial or semantic differences may exist are not the result of any difference in law or reasoning, but the result of the application of equitable principles to the facts of each case. Thus, petitioner's alleged "split in the circuits" is premised upon no more than the theoretical possibility that the case could have been decided differently in another court.

The Second Circuit's standard for an award of profits in a trademark infringement action is consistent with that of every other circuit. As in all circuits, the Second Circuit requires an application of principles of equity to the facts of the case to determine whether a profit award should be made. However, the Second Circuit has chosen to place particular emphasis on the element of bad faith.

In *George Basch Co.*, the Second Circuit analyzed the historical changes in the law concerning profits recovery and found, in a case where the defendant had not acted with intent to deceive, that:

> In varying degrees, a finding of defendant's intentional deceptiveness has always been an important consideration in determining whether an accounting was an appropriate remedy.

George Basch Co., supra, 968 F.2d at 1539. In reaching this conclusion, the Second Circuit analyzed each of the historical theories underlying an award of an infringer's profits — unjust enrichment, deterrence, or as a measure of plaintiff's damages — and found that each rationale depends to some extent upon a showing of willfulness. *Id.* at 1537-39. The Second Circuit consequently adopted the view that, in applying principles of equity to a demand for an accounting of profits, the element of willfulness was so important that it had to be present in order to sustain a profits recovery.

Id. at 1540 (*citing* Restatement (Third) of Unfair Competition, § 37(1)(a)) ("One . . . is liable for the net profits earned on profitable transactions resulting from [the infringement], if, but only if, the actor engaged in conduct with the intention of causing confusion or deception. . . .").

In this case, the Second Circuit was again confronted with a plaintiff who could not demonstrate to the District Court the existence of bad faith (not to mention actual damages or consumer confusion). After careful examination of the evidence, the District Court concluded that the equities of the case did not support petitioner's demand. Rather, the District Court found that there was no bad faith, and all of the facts and circumstances pointed to one conclusion — that under principles of equity, petitioner should not be entitled to recover respondent's profits, much less all of the revenues ever generated by respondent in the sale of goods bearing the infringing mark. The Second Circuit agreed.

None of the decisions from other circuits conflicts with the decision here. In *Louis Vuitton S.A. v. Lee*, 875 F.2d 584 (7th Cir. 1989), the defendants did not unintentionally infringe upon a trademark — they knowingly and willfully sold counterfeit handbags. By its very nature, a counterfeit product is intended to mislead and to cause confusion. The comments in the Seventh Circuit's decision as to the possibility that "innocent" infringers may be subject to profit awards are mere *dicta* which do not evidence conflict or warrant review by this Court.

In *Roulo v. Russ Berrie & Co., supra*, the defendant purposely created a greeting card design to replace the card that plaintiff had formerly produced for it. The Seventh Circuit affirmed a profits award based on "evidence of intentional imitation and the substantial similarity between the two card lines." In addition to this finding of willfulness,

the Seventh Circuit's acknowledgment that the Lanham Act provides no express standard for awarding profits beyond the phrase "principles of equity" does not conflict with the decision here and is no more than a comment on the language of the Act that is consistent with the Second Circuit's analysis. *Roulo, supra,* 886 F.2d at 941.

Like *Louis Vuitton, Chanel Inc. v. Italian Activewear of Fla., Inc.*, 931 F.2d 1472 (11th Cir. 1991), also involved the sale of counterfeit goods — again which by their very nature are intended to mislead and cause confusion. Additionally, the decision in *Chanel* arose out an appeal from a grant of summary judgment on plaintiff's attempts to recover under 15 U.S.C. § 1117(b) — which specifically addresses counterfeit goods — not 15 U.S.C. § 1117(a) which is at issue in the present case.

Similarly, *Burger King Corp. v. Mason*, 855 F.2d 779 (11th Cir. 1988), was a case of intentional infringement. There, the defendant was a Burger King franchisee who continued to use the franchisor's registered trademarks despite the fact that he knew that his franchise had been terminated. *Id.* at 780. *See also Sands, Taylor & Wood Co., supra,* 978 F.2d at 963 (refusing to reverse finding of bad faith even though evidence was "marginal," but reversing $24 million windfall profits award and remanding for new award).

In light of the fact that in each of these cases the Circuit Court affirmed an accounting of defendant's profits only after carefully examining the equities and circumstances (and finding, in every case, that the defendant acted in bad faith), the petitioner's contention that trademark owners "in some parts of this country [are] presumptively entitled to recover monetary relief . . . for infringement," is simply without merit. Pet. at 7. No court in any Circuit has ever held that a plaintiff is entitled to defendant's profits based solely upon

a showing of infringement. Petitioner's claim of presumptive entitlement to the respondent's profits is unsupported by the language of the statute, or the very cases it cites in trying to prop up its alleged split in the circuits.

Further, petitioner incorrectly argues that the decisions in the Fifth and Ninth Circuits are internally inconsistent, stating that the factors listed by the court in *Pebble Beach, supra*, 155 F.3d at 554, *see* note 2, *supra*, cannot be reconciled with the Fifth Circuit's holding in *Rolex Watch, USA, Inc. v. Meece*, 158 F.3d 816 (5th Cir. 1998), *cert. denied*, 526 U.S. 1133 (1999).

In *Pebble Beach*, the Court of Appeals found an accounting of profits was not justified, "considering the lack of actual damages and the lack of an intent to confuse or deceive." *Pebble Beach*, *supra*, 155 F.3d at 555. In *Rolex*, the Fifth Circuit affirmed a denial of an accounting of profits under 15 U.S.C. § 1117(a) based on the plaintiff's failure to show deliberate infringement. *Rolex*, *supra*, 158 F.3d at 828. Thus, both cases denied an award of profits for the same reason — failure to show willfulness — so petitioner's assertion that the cases cannot be reconciled is without merit. Petitioner also fails to acknowledge that the factors listed in *Pebble Beach* are all factors explicitly recognized by the Second Circuit as being part of an application of equitable principles in determining whether to award profits. *See George Basch Co.*, *supra*, 968 F.2d at 1540.

Finally, by claiming a supposed internal inconsistency in the Ninth Circuit between *Everest & Jennings, Inc. v. E & J Mfg. Co.*, 263 F.2d 254 (9th Cir. 1958), *cert. denied*, 360 U.S. 902 (1959), and *Adray v. Adry-Mart, Inc.*, 76 F.3d 984 (9th Cir. 1995), the petitioner once again chooses to ignore the facts and holdings of each case and instead relies on *dicta* to raise the spectre of a hypothetical inconsistency.

In *Adray*, the case which petitioner claims creates the inconsistency, the Ninth Circuit explicitly held that the plaintiff "could recover [the defendant's] profits only if the infringement was willful." *Adray*, *supra*, 76 F.3d at 988.

For decades, the courts have recognized that there is a range of infringing conduct from innocent to deliberate and, for this reason, have developed standards pursuant to the "principles of equity" for determining whether, in a given case, an injunction, damages, profits, attorneys' fees, or some combination of these remedies is appropriate. The Court of Appeals here did nothing novel or extraordinary; it simply applied these long-standing principles to the finding of the District Court that there was no bad faith or willful infringement.

Rule 10 of the Rules of the Supreme Court of the United States provides that one of the "compelling reasons" for granting a petition for *certiorari* is where "a United States court of appeals has entered a decision in conflict with the decision of another United States court of appeals on the same important matter." Because no Circuit Court has affirmed an accounting of profits without first finding bad faith, the petitioner has failed to show that such a conflict is present here, and therefore the petition should not be granted.

C. The Court Below Did Not Misinterpret Supreme Court Precedent

The petitioner apparently contends that the majority of trademark jurisprudence with respect to profits awards results from a misreading of the Supreme Court's decision in *Champion Spark Plug Co. v. Sanders*, *supra*.

In *Champion Spark Plug*, the plaintiff, a manufacturer of spark plugs sold under the trademark "Champion," brought

an infringement and unfair competition action against the defendant, who collected and repaired the plaintiff's plugs without removing the mark "Champion," and resold them in boxes marked "Champion." Noting that the Court of Appeals had entered an injunction which would prohibit the defendant from using the plaintiff's mark, this Court stated:

> Under the Trade Mark Act of 1905, as under its predecessors, an accounting has been denied where an injunction will satisfy the equities of the case. . . . Here, as we have noted, there has been no showing of fraud or palming off. . . . Moreover, as stated by the Circuit Court of Appeals, the likelihood of damage to petitioner or profit to respondents due to any misrepresentation seems slight. In view of these various circumstances it seems to us that the injunction will satisfy the equities of the case.

Champion Spark Plug, supra, 331 U.S. at 1139-40.

Contrary to petitioner's argument (Pet. at 17), neither the decision below, nor that of any Circuit Court, "woodenly applies a strict requirement of bad faith" based on *Champion Spark Plug*. In rejecting an accounting of defendant's profits in this case, and in many prior cases, the Circuit Courts have properly applied the *Champion Spark Plug* test, which requires an analysis of the equities of the situation to determine whether defendant's profits should be disgorged.

In particular, the Second Circuit, in *George Basch Co.* and other cases, did not "woodenly apply" any holding in *Champion Spark Plug*. Rather as noted above, the Second Circuit recognized that its mandate under Section 35(a) of the Lanham Act was to subject every claim for an award of profits to "equitable principles" and to determine whether to make such awards "according to the circumstances of each case." *George Basch Co., supra,* 968 F.2d at 1541-42.

D. The Equities of the Case Do Not Support Petitioner's Claim for Recovery

While a petition for *certiorari* should not be used as a forum to reargue findings of fact, respondent simply cannot ignore petitioner's inaccurate presentation of the equities of this case. In truth, the equities here cry out not for an award of all of defendant's revenues, but rather for the denial of any monetary relief.

First, the District Court recognized that petitioner's mark was so weak that "it was a 'close question' whether the plaintiff had any trademark rights." Pet. App. at 37a.

Second, the Circuit Court found that actual damages could not be recovered because the petitioner "offered no evidence of actual confusion . . . and indeed presented no evidence of pecuniary loss. . . ." Pet. App. at 26a.

Third, the District Court found *on three separate occasions* that respondent did not act in bad faith, either in adopting the term "Star Class" or continuing to use it after performing trademark searches or being sued. On the issue of whether respondent intended to infringe a trademark when it first decided to use "Star Class," the District Court stated:

> There is no showing that Hilfiger had knowledge of the existence of [petitioner] or of the mark's association with any entity at all, let alone any commercial use of the designation Star Class. Pet. App. at 33a-34a.

The District Court also found, in the face of admonitions by the Circuit Court to review carefully the evidence, that: (i) the respondent had not ignored the advice of its counsel to go beyond an initial trademark scan search of "Star Class"

and do a full trademark search (indeed, the District Court found respondent's lawyers had *not* so advised respondent) (Pet. App. at 35a), (ii) that the full trademark search respondent performed after being sued did *not* put it on notice that "Star Class" was a mark owned and being used by petitioner (Pet. App. at 33a-34a), and (iii) that continued use of the mark following denial of respondent's summary judgment motion did not evidence bad faith on respondent's part (Pet. App. at 36a).

Fourth, the District Court concluded that "the sales of defendant's garments were driven by the prominent use of defendant's name, initials and crests, which identified the garments as defendant's product, and not the word 'Star Class' " (Pet. App. at 33a), and that "the use of the Star Class mark conferred little benefit on Hilfiger" (Pet. App. at 39a). The Court found that the term "Star Class" was a mere "embellishment" on respondent's garments, and that famous Hilfiger trademarks overwhelmingly drove the sale of these goods. These are additional compelling reasons why any award of profits would be a pure windfall to petitioner.

Finally, it was petitioner's choice not to pursue a temporary restraining order. Petitioner rationalizes now that it did not do so because it was too poor to post a bond (although there is no evidence of this in the record), and argues that the clock should be turned back to April 1994, when a TRO would have entered. This argument assumes, however, that poverty was in fact the reason why petitioner did not seek a TRO. Given that this was a "close case" on protectability and infringement, it is far more likely that petitioner did not seek a TRO because it was afraid it would lose, and the District Court might also have weighed in unfavorably on the issue of whether petitioner was likely to succeed on the merits.

This is not, and has never been, a case where the equities clearly favor petitioner. Unlike the defendant in *Polo Fashions, Inc. v. Dick Bruhn, Inc.*, 793 F.2d 1122 (9th Cir. 1986), a case petitioner cited repeatedly to the Circuit Court, respondent is not a brazen counterfeiter who needs to be taught a lesson. Nor should this Court be influenced by the petitioner's repeated posturing as a poor David being abused by a corporate Goliath. As the Seventh Circuit has recognized, "[e]quity is not a roving commission to redistribute wealth from large companies to small ones. The Lanham Act was not written by Robin Hood." *Louis Vuitton, supra*, 875 F.2d at 589. Rather, the equities of this case call for no more than the same remedy awarded by Judge Patterson at trial — injunctive relief but no damages.

III.

THE DECISION OF THE COURT OF APPEALS DOES NOT CONFLICT WITH THE PLAIN MEANING OR THE LEGISLATIVE HISTORY OF THE LANHAM ACT

The petitioner asserts that because Section 35(a) of the Lanham Act does not expressly condition an award of profits on the presence of bad faith, the Circuit Court's decision goes against the plain meaning of the statute. In making this assertion, petitioner ignores the requirement of Section 35(a) that an award of damages be subject to "the principles of equity." All Circuit Courts have held that the defendant's bad faith is an important factor to be considered in applying "principles of equity." No Circuit Court has ignored the plain language of Section 35(a).

Petitioner also argues that the legislative history of the Lanham Act supports the proposition that Section 35(a) does not require a showing of bad faith. In support of this proposition, petitioner points to bills introduced in the early

1920's, fourteen years before the first bill introduced by Representative Lanham in 1938. In fact, however, those bills were not "early drafts" of the Lanham Act, as petitioner argues. Pet. at 13-15.

The first bill which can truly be called an "early draft" of the Lanham Act is HR 9041, introduced by Representative Lanham in 1938. In 1943, Congressman Lanham submitted a report which included a section entitled "History of Proposed Trademark Legislation." The section begins: "H.R. 9041, the first of a series of bills to amend and codify the trademark laws, was introduced January 19, 1938." *House Report No. 603,* 78th Cong. 1st Sess., 1943.

Subsequently, in 1945, Congressman Lanham introduced HR 1654, which was, after a further series of amendments, enacted as the Lanham Act in 1946. In the report submitted with this bill, the section outlining the history of the proposed trademark legislation once again pointed to HR 9041 as the first in a series of bills leading to the enactment of the Lanham Act. *House Report No. 219,* 79th Cong. 1st Sess., 1945.

Additionally, the report following the 1946 House-Senate conference on HR 1654 contains the following statement from Congressman Lanham: "Mr. Speaker, the legislative history of this act is long and extensive. Many hearings have been held over a period of almost 8 years. These hearings may, and probably will be referred to by the courts in construing and interpreting the provisions of the act." *House Report No. 1333,* 79th Cong. 2nd Sess., 1946.

Thus, this Court should give no weight to petitioner's argument that a 1924 bill demonstrates that bad faith is not a required element for an award of profits under the Lanham Act.

IV.

THE COURT OF APPEALS DID NOT MISINTERPRET THE LANHAM ACT WITH RESPECT TO THE DENIAL OF ATTORNEYS' FEES

Finally, the petitioner argues that, even in the absence of a finding of bad faith, it should be entitled to an award of attorneys' fees under the "exceptional case" doctrine of the Section 35(a). Once again, the petitioner is asking this Court not to resolve any conflict in the Circuits on the law, but to reverse a factual determination made by the courts below that this is not an exceptional case.

The legislative history of the Lanham Act shows that the 1975 amendment to Section 35(a), providing for an award of attorneys' fees in exceptional cases, was indeed intended for those circumstances where the infringement is at least willful:

PURPOSE OF H.R. 8981

> The purpose of H.R. 8981 is to affect three minor changes in the Trademark Act of 1946, as amended:
>
> * * *
>
> (3) It would authorize award of attorney fees to the prevailing party in trademark litigation where justified by equitable considerations. Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974, p. 7132.

* * * *

> The Department of Commerce believes and the Committee agrees that the remedy should be available in exceptional cases, *i.e.*, in infringement cases where the acts of infringement can be characterized as "malicious," "fraudulent," "deliberate," or "willful." Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974, p. 7133.

SECTIONAL ANALYSIS

> Section 3 provides that attorney fees may be awarded to the prevailing party in actions under the Federal Trademark Laws, when equitable considerations justify such awards. It would make a trademark owner's remedy complete in enforcing his mark against *willful infringers*, and would give defendants a remedy against unfounded suits. (emphasis added) Senate Report No. 93-1400, 93d Cong. 2d Sess., 1974, p. 7137.

Additionally, courts interpreting the attorneys' fees provision of Section 35(a) have long required that in order for a case to be "exceptional" there must be "evidence of fraud or bad faith." *See Conopco, Inc. v. Campbell Soup Co.*, 95 F.3d 187, 194 (2d Cir. 1996); *George Basch Co., supra,* 968 F.2d at 1543; *Roulo, supra*, 886 F.2d at 942.

Petitioner's reliance on *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Rest.*, 771 F.2d 521 (D.C. Cir. 1985) is unavailing. *Noxell* did not involve an assessment whether an infringer had acted in bad faith prior to litigation. Rather, the court awarded attorneys' fees due to the plaintiff's bad faith litigation strategy, including its "unreasonable" venue selection, unsupported by "even a wisp" of tenable argument, which imposed an undue hardship on the defendant. *Id.* at 526-27. The circumstances of *Noxell* have nothing to do with this case.

Petitioner also fails to mention that it did not even raise the issue of its attorneys' fees on its second appeal to the Circuit Court, so that the issue was technically not before the Court on the third appeal. Accordingly, petitioner's request for review of the denial of its attorneys' fees in the absence of a showing of bad faith should be denied.

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari should be denied.

Respectfully submitted,

LOUIS S. EDERER
Counsel of Record
STEVEN R. GURSKY
WALTER ELIOT BARD
ROBERT S. OGDEN
JOHN MALTBIE
GURSKY & EDERER, P.C.
Attorneys for Respondent
1350 Broadway, 11th Floor
New York, New York 10018
(212) 904-1234